

WORLD BRIEFS

In Hungary, Strikers Find Their Aims Win An Official Blessing

By Henry Kamm
New York Times Service
BUDAPEST — Three times since the last week in August, the Hungarian press has carried unusual reports of brief strikes in a coal mine, a printing plant and an optical factory.

party chief, was counted as a stalwart of the Communist hard-liners. "In the past, the trade unions were against strikes and did everything to stop them," he said.



The Solidarity leader, Lech Walesa, left, conferring with union leaders and advisers in Gdansk before his talks with the Polish authorities. Accompanying Mr. Walesa are, from left, Bronislaw Geremek, Tadeusz Mazowiecki and the Reverend Henryk Jankowski.

Calls to Legalize Solidarity Grow Louder

By Jackson Diehl
Washington Post Service
GDANSK, Poland — Preliminary negotiations between the government of General Wojciech Jaruzelski and the banned Solidarity trade union must provide assurances that the union will be legalized if the opposition is to participate in broader "roundtable" negotiations proposed by the government, union leaders said Sunday.

law Geremek, said the talks would be a "preliminary meeting" that should provide "the assurance of the intentions of the authorities on Solidarity." Solidarity, he added, was "not only the question number one, but everything else depends on it."

During the last week, a series of official statements have appeared to rule out any acceptance by the party of Solidarity as a second trade union movement competing with existing, Communist-backed unions set up in 1982. Instead, party officials have suggested that the present trade unions could be improved while Solidarity's long-time activists could set up an association similar to lay church groups already in existence.

agreed that the legalization of Solidarity could be one topic of the proposed roundtable talks, while Mr. Walesa agreed to call for an end to two weeks of strikes without receiving any guarantee that Solidarity would be legalized.

For the Soviet Reader, a New Catch-22

By Bill Keller
New York Times Service
MOSCOW — The Soviet reader in the days of glasnost knows the frustration of Tantalus. The rich fruits of Moscow spring hang on the branches, many of them no longer forbidden but just out of reach.

Ogonyok, Novy Mir, Znamya — all the most daring publications — had been frozen at 1988 levels. Hundreds of letters and telegrams have poured in, pleading for exemptions.

them out myself long ago," said Svetlana V. Rosikovskaya, the director of the library. The Culture Ministry recently extended to librarians the discretion to give dormant reading matter the heave-ho.

U.K. Unions See Merit In United EC Economy

By Craig R. Whitney
New York Times Service
LONDON — The battle lines have shifted in Britain's long internal struggle over its membership in the European Community.

by relocating or declaring themselves "European," turning the market into chaos. Ron Todd, head of the powerful Transport and General Workers Union, said of Mr. Delors's proposals for bringing workers into company board rooms, "In the short term, we have not a cat in hell's chance of achieving that in Westminster, but we may have it in Brussels."

China Stops Rewards for Defectors

BEIJING (UPI) — China abolished on Sunday a 26-year policy of offering rewards to military defectors from Taiwan amid reports that the senior Chinese leader, Deng Xiaoping, is seeking new initiatives toward reunification with Taiwan.

Stroessner Is Recovering, Aide Says

ASUNCION, Paraguay (AFP) — President Alfredo Stroessner was released from hospital after an 11-day stay for a prostate operation, a senior aide said.

Serbian Marchers Protest on Kosovo

BELGRADE (Reuters) — Tens of thousands of Yugoslavs denouncing alleged harassment of Serbs in the southern province of Kosovo have held new protest marches in Serbia, the news agency Tanjug reported.

UN Role in Occupied Lands Is Urged

NICOSIA (AP) — Foreign ministers of the Nonaligned Movement ended a conference Sunday with a call for the United Nations to assume "temporary supervision" of the Israeli-occupied lands to protect Palestinians.

Estonians Rally for Independence

MOSCOW (AFP) — Hundreds of thousands of people gathered for the biggest political rally in Estonian history on Sunday. Speakers called for Soviet republic to become an independent state again, participants reported from the Estonian capital, Tallinn, where the rally took place.

TRAVEL UPDATE

Bloomies to Add U.S. Airport Shops

NEW YORK (NYT) — Bloomingdale's said Sunday that it had agreed with Host International Inc. to expand the number of Bloomingdale's Express shops in airports in the United States.

This Week's Holidays

- Monday: Belize, Ethiopia, Guinea-Bissau, Israel.
Tuesday: Israel.
Wednesday: Nicaragua.
Thursday: Costa Rica, El Salvador, Guatemala, Honduras, Japan, Mexico.
Friday: Mexico, Papua New Guinea.
Saturday: Angola.
Sunday: Burundi, Chile.

West Europe Chided on Iraq

By Joseph Fitchett
International Herald Tribune
BRIGHTON, England — Defense experts meeting here Sunday criticized West European governments for failing to respond to Iraq's use of chemical weapons, despite evidence that Baghdad has used the weapons against its Kurdish minority after employing them against Iran in the Gulf war.

The U.S. State Department said last week that U.S. officials in Turkey who visited Kurdish refugees found that some of them had symptoms that arise from the use of poison gas, including blisters, oozing sores and dizzy spells. Last month, an independent team of United Nations experts concluded that Iraq had used chemical weapons on a "large and frequent" scale against Iran in the Gulf war.

IRAQ: U.S. Bill Spurs Mass March

(Continued from page 1)
The protesters dispersed a few kilometers away. Mr. Hussein said in a statement Sunday that the U.S. Senate was seeking "to divert the attention of the international media from the uprising in the occupied territories."

against its Kurdish minority has ended, and its forces control northern regions formerly considered rebel bastions, according to a senior official in the Turkish Foreign Ministry.

2 East Germans Flee to West

BERLIN — Two East German men fled to the West over the weekend, but three others were caught, the police in West Germany said Sunday.

European governments are reluctant to join in sanctions against Iraq, officials said, because they have loans, investments and sales at stake there. In addition, West German and French companies apparently supplied equipment and chemicals that Iraq may have used in making chemical weapons.

U.S. and Its Allies Weigh Arab Role For Gulf Cleanup

PARIS — The United States and its European allies are discussing the creation of a coordinated naval force financed by Arab states that would clear the Gulf of mines and other debris from the war between Iran and Iraq, diplomats said.

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Pope, in Zimbabwe, Praises Mugabe

By Robert Suro
New York Times Service

HARARE, Zimbabwe — President Robert Mugabe, a self-proclaimed Marxist and former guerrilla leader, has a new and somewhat unlikely friend in Pope John Paul II. Over the past two days, the pope has repeatedly said Zimbabwe could become a model for Africa, and he has generously praised Mr. Mugabe.

Other world leaders with beliefs and backgrounds similar to those of Mr. Mugabe have been given cold, critical treatment during papal visits to their countries. But senior Vatican officials said the pontiff decided that in Zimbabwe he would accentuate the positive more than usual.

"President Mugabe is unlike some other Third World leaders," said an official. "He has applied his ideological principles without generating trauma."

"There have been no large-scale expropriations of private property because he is too pragmatic to try to impose socialism," the official said.

Addressing an assembly on Sunday at Sacred Heart Cathedral in Harare, Pope John Paul II said he prayed that Zimbabwe "will be an example and a positive influence on others in the urgent task of establishing a civilization of peace and justice."

While holding up Zimbabwe as an example for other countries, the pope has not mentioned that Mr. Mugabe runs a one-party state. The pontiff also has refrained from appealing for political pluralism.

Zimbabwe is the first country the pope has visited on a five-nation, 10-day tour of southern Africa, a region he has characterized as tortured by tribal, ideological and international conflicts. He will not visit South Africa, but he has voiced strong concerns about the South African system of racial segregation and the country's aggressive politics in the region.

In light of the regional troubles, the pope has focused on two aspects of Mr. Mugabe's policies as lessons for others.

First, he has noted that the Roman Catholic Church, whose followers account for less than 9 percent of the population in Zimbabwe, is given simple freedom. Mr. Mugabe, who was educated by missionaries as a child, has noted that the church makes valuable contributions to national development through its schools and hospitals.

The second policy recognized by the pope — and the one that has received most of his praise — is the effort to establish national reconciliation, which was started following the bloody war that brought Zimbabwe independence under black rule in 1980.

Under the reconciliation program, the small white population was assured participation in the government, and racial tensions have been limited. But Mr. Mugabe's peacemaking efforts have been less successful with his black opponents. In 1983, the church denounced brutality by the army and insurgents who clashed in Matabeleland.

The most recent reconciliation effort involved the absorption of rival forces led by Joshua Nkomo into Mr. Mugabe's party, the Zimbabwe African National Union.

When the pope arrived in Harare on Saturday, he said that the reconciliation program had made Zimbabwe "a nation to which the whole of Africa, and indeed the world, looks for a sign that a better future can be built on the basis of justice and brotherhood under God, without discrimination."

Addressing himself to Mr. Mugabe, who was at the airport to greet the pope, the pontiff said, "I assure you of my prayerful support and encouragement," in carrying out reconciliation.

The pope's warm words suited the season in Zimbabwe in several ways. With the onset of spring in the Southern Hemisphere, the jacaranda, bougainvillea and many other plants are flowering in Harare.

It is also a time of hope, because violence caused by tribal and political rivalries appears to have ended after an amnesty was declared for political dissidents earlier this year.

Surrounded by turmoil beyond its borders, Zimbabwe seems prepared to enjoy its moment of tranquility, as well as the encouragement it has received from the pope.



Pope John Paul II blessing African women on Sunday during a mass in Harare, Zimbabwe, that was attended by 150,000 people.

KAUNDA: African 'Big Men' Wed Tribal Authority and National Power

(Continued from page 1)

independence, only four civilian leaders in the 47 black-ruled countries of sub-Saharan Africa have voluntarily chosen to retire. With the exception of two leaders in Mauritius, a small island nation in the Indian Ocean, not one African leader has permitted voters to end his reign.

Kenneth David Kaunda, 64, is probably the most charming, likable and articulate Big Man in Africa.

He is unique among African leaders in receiving a steady stream of foreign journalists and granting long, unstructured interviews. He seems to relish conversation and does not shirk from pointed questions, political or personal. Last year he acknowledged that one of his sons had died of AIDS.

Explaining in a recent interview why he makes himself available to the press, he said, "I want to hear whether what I am doing is getting through."

He does not drink, smoke or eat red meat. He laces his speeches with quotes from the Bible and refers constantly in conversation to his "philosophy of humanism," a mélange of Christianity and socialism.

When he was teaching school in the early 1950s, he began reading leftist political tracts published in England. The colonial police sentenced him to two months in jail for owning a socialist pamphlet. His first trip to Europe in 1957 was paid for by Britain's Labor Party.

In the 24 years that Mr. Kaunda has been in power, a reign that began after he led the independence movement that transformed Northern Rhodesia into Zambia in 1964, his personal life has remained remarkably consistent with his rhetoric.

He works long hours and, unlike many African leaders, has not used the power of the state to make himself fabulously rich. He has opposed white minority rule with more vigor than any leader on the continent, supporting guerrilla groups fighting in Portuguese-ruled Mozambique, in Ian Smith's Rhodesia and now in South Africa. That support has bled the Zambian economy and continues to subject the country to commando attacks.

Mr. Kaunda's personality and his principles have been well received internationally. He is chairman of the so-called frontline states, a group of black-ruled countries close to South Africa, and he has twice been elected chairman of the Organization of African Unity. He has helped mediate the end to several civil wars in Africa, most recently in Chad.

He also has been, until recently, a favorite of European politicians, who fancied his socialism and lavished aid money on his government. Until two years ago Zambia was one of the world's largest per capita recipients of foreign aid.

For all his humanitarian principles and his status as a senior statesman, Mr. Kaunda has presided

over the economic disintegration of his country.

Zambia has tumbled in 20 years from being one of black Africa's richest and fastest growing countries to being an economic invalid. Per capita income has fallen 30 percent in 12 years. There are chronic shortages of staple foods and essential spare parts. The rate of child death from malnutrition has doubled in a decade.

Mr. Kaunda has often said that his country was born "with a copper spoon in its mouth." In the first decade after independence, high copper prices fueled an economic growth rate of about 13 percent a year, and Zambia was awash in prosperity.

His treasury full of copper revenue, Mr. Kaunda spent the money as fast as it came in. He built schools, hospitals and roads. He subsidized health care, higher education and the price of food.

Jobs in the booming copper industry were to be had in the Copper Belt cities of northern Zambia; jobs in Mr. Kaunda's growing bureaucracy were to be had in the capital, Lusaka. The income gap between town and country grew to 15 to 1. (The gap is now 3.5 to 1, largely because urban income has fallen so sharply in the last decade.)

It did not take long before half the population had moved to town, and Zambia became the most urban country in Africa. The depopulated and neglected farm sector, the traditional base of Zambian society and the economic heart of Africa, could not feed the cities, and so food was imported. It was paid for, like the rest of the Kaunda humanitarian society, with copper money.

"Money has been spent hand over fist and all on totally unproductive investments," wrote a French agricultural economist, René Dumont, in his 1983 book "Stranglehold on Africa."

"Yet the basis of this civilization is agricultural, and still very largely African and traditional, with very few industries. So the towns have feet of clay."

When the price of copper collapsed in the mid-1970s, Mr. Kaunda began borrowing from foreign governments, commercial banks and multilateral agencies to prop up the subsidized life to which urban Zambians had grown accustomed. Zambia borrowed about \$6 billion, continued to neglect agriculture and hoped in vain that the price of copper would rebound.

"The only admission I make, where I went wrong, is that we subsidized consumption for too long," Mr. Kaunda said.

Like most of the other nations of independent Africa, Zambia is an artificial creation of colonial map-makers, a fictional amalgam of 73 different tribes, many of which resent and are suspicious of one another.

Keeping peace among the tribes is a principal preoccupation of Africa's Big Men. Failure to do so is frequently fatal.

Thus, in addition to spending large sums on the urban population, Mr. Kaunda has also used copper revenues to sustain his system of governance. To keep everyone as happy and as nonviolent as possible and to keep himself comfortably in control of all 73 tribes, he expanded the civil service and nationalized two-thirds of his country's industries. He parcelled

BURMA: Elections Pledged but Protests to Continue

(Continued from page 1)

expecting the government to take effective action.

"I therefore warn those responsible for the lawlessness to cease such activities," he said.

In some areas of Burma, he said, students and Buddhist monks were setting up rival local governments, creating "a grave and dangerous situation for those responsible."

"It is essential to remove them immediately," he said.

He called on demonstrators to get back to work and on civil servants to reactivate the stalled machinery of government. In addition, he attacked the formation on Friday of a rival government by U Nu, a former prime minister.

U Maung Maung said the decision to call multiparty elections was "a milestone in Burmese history."

"It will be evident in 20 years' time whether the decision was correct or not," he told the 489-member legislature.

U Maung Maung urged Burma's 22 million voters to "use their potent weapon — the vote — to choose the right representatives."

The Western-trained lawyer and author, the country's first civilian leader in 26 years, said that he would not run and that the powerful military would "not lobby for any party."

In recent weeks, the government has made several concessions.

General Ne Win resigned as head of the ruling party in July, citing widespread street protests in March and June as a factor.

When U Sein Lwin, a hard-liner widely hated for his brutal suppression of dissidents, was chosen to succeed him, riots erupted. Troops killed 112 protesters, the government said, but Western diplomats said the number was much higher.

U Sein Lwin resigned Aug. 12 after 17 days in power, and U Maung Maung was named to replace him. Martial law was lifted, and activities that before would have drawn prison terms or worse were allowed.

LEE: Asian Cooperation Would Counter Protectionism

(Continued from page 1)

countries, we could react as a larger group.

Q. Has Western Europe been too slow to seize trade investment and other opportunities to secure a substantial stake in future growth of East Asia?

A. European nations have not been as quick to participate in the rapid growth of the region as the U.S. and Japan. They have focused their attention and concentrated their efforts on their traditional areas of special interest, such as Africa and Latin America. However, some European countries, like West Germany, Britain and France, in that order, are making up the leeway the U.S. and Japan have gained on them.

Q. Since the end of World War II, the U.S. has provided the key element in the balance of military and economic power in Asia and the Pacific. As America's relative power declines, how do you expect to see Japan, China and the Soviet Union react?

A. The decline in America's military and economic power, as of

now, is only relative and still slight. So it has not yet felt by the countries of the region.

On the other hand, the Soviet Union has been building up its strength since the early 1970s and has become a more dominant power, especially since it acquired bases in Cam Ranh Bay in Vietnam. The Japanese have gradually increased their defense expenditures. China is seeking to reduce tension with the Soviet Union to concentrate on modernization. But over the longer term, both Japan and China will probably raise their defense spending to try to make up for the relative decline in America's military capabilities in the western Pacific.

Q. Wouldn't increased expenditures on defense by Japan and China extend their ability to project military power?

A. Japan would be very careful to avoid that because she would not want to arouse all those latent fears of the old Japan. In 20 years, I think China will be able to project her naval and air forces beyond her immediate coast or borders.

Q. How would countries in Southeast Asia react to that?

A. It depends on how strong is the American presence. If the U.S. can counterbalance both China and the Soviet Union, we would not be too fussed. If the American presence is insufficient, and has to depend on the Chinese to help balance the Soviets, that is a different proposition.

Q. What would be the main consequences for countries in East Asia and the Western Pacific if U.S. forces lost access to bases and other military facilities in the Philippines?

A. The U.S. would have to find alternative bases in the region to enable her military units to react to Soviet forces in Cam Ranh Bay as effectively as they can react from Subic Bay and Clark airfield [in the Philippines]. If American bases have to be re-sited back in the Marianas [an island chain about 2,200 kilometers (1,400 miles) east of the Philippines], then either more U.S. forces would have to be committed to make up for increased sailing and flying time, or forward deployment of fighting units, based in the Marianas, would have to be arranged with countries nearer to Cam Ranh Bay.

VOTERS: Bush and Dukakis Arouse Anxiety Among Middle Americans

(Continued from page 1)

a law student at Baylor University in Waco, Texas.

Even amid the relative prosperity of the present, these voters have nagging doubts about the long-term prospects of the nation.

"We're eating our base, sending those jobs overseas," said Dale Harting, a St. Louis plumber.

"I worry about the young people," said Irma Weissert, a retired credit manager from New Jersey. "Unless something drastic is done, they won't have the opportunities we did. We seem to be losing our lead in industry, trade, everything."

Harold Jones, a refrigerator repairman from Akron, Ohio, said the surge of foreign ownership of U.S. factories and real estate had left him worried that one day "it's the Japanese that are going to be knocking on our door and repossessing."

Such decline-of-empire anxieties would seem to play into the hands of the candidate of the "out" party. But the interviews left doubt about how much Mr. Dukakis could capitalize on them. For one thing, he does not naturally play to the populist politics of resentment and nationalism; his demeanor comes across as too cool, controlled and rationalistic.

But more fundamentally, he has not conveyed the sense of strength that would give voters reassurance. His image and policy positions are so fuzzy to these voters that he has proven vulnerable to Republican efforts to portray him as a Massachusetts big spender and a liberal who is naive about national security.

Mr. Bush has a different problem. These voters have a clearer sense of who he is, but many persist in their doubts that he has the basic leadership qualities to be president.

"I'm not sure about him," said Aubrey Montgomery, 40, a Waco, Texas, home remodeler. "He's more of a follower. I get the strange feeling that if he were president, Reagan would still be calling the shots."

Mr. Bush does get credit for his experience, but he created serious doubts about his judgment — even among his supporters — when he selected Senator Dan Quayle of Indiana to be his running mate. The choice left many voters confused, worried and incredulous.

For a few, the issue is Mr. Quayle's National Guard service; for many more, it is his lack of apparent qualification to be president. And the more profound issue is how Mr. Bush could have selected him.

"This was one of his main jobs, and he had time to think about it," said Donna Freiner, a medical receptionist from St. Louis. "I think he blew it."

The evident lack of enthusiasm for either candidate suggests that if Mr. Bush or Mr. Dukakis musters a show of strength at the other's expense in the coming weeks — particularly in the two scheduled television debates — he could move millions of votes in a matter of days. This is an electorate still waiting to be captured.

One of the strongest findings from the interviews across the country is that Mr. Dukakis begins the last two months of the presidential campaign in a dangerous position: Many voters either have no clear image of him, or their views have been influenced by Mr. Bush's negative portrayal of the Democratic Party.

In Akron, for example, two vot-

ers leaning toward Mr. Dukakis, Ilene Shapiro and Harold J. Jones, complained that no presidential candidate had addressed the problem of health insurance for welfare mothers seeking to go to work and the more general need to make sure that everyone got adequate medical care.

"Has Bush or Dukakis talked about any of this?" Mr. Jones asked at a roundtable discussion with six other voters. No one knew that in fact Mr. Dukakis had enacted programs in Massachusetts specifically providing universal health insurance and continued medical coverage for welfare recipients going to work.

In Englewood Cliffs, the comments of Frank Crono Jr., a retired policeman, were a clear signal of the effectiveness of Republican attempts to define Mr. Dukakis as a liberal: "I grew up thinking the Republicans were for the rich and the Democrats for the little guy, but I heard that a friend of mine that Dukakis is for the gay rights bill. If Dukakis is going that far on the liberal side, he may do more harm than good."

In order to win, Mr. Dukakis must persuade a significant percentage of Reagan voters to cast Democratic ballots. But most of the voters contacted by The Post who indicated that they planned to vote for Mr. Dukakis said they had been loyal Democrats all their lives, and very few said they were drawn to him because of something he had said or done.

Voters repeatedly questioned Mr. Bush's ability to lead or ridiculed aspects of his personality. After seven and a half years of the Bush vice presidency, even his strongest supporters said they did not know him very well.

Where he fares best is among traditional Republican voters who share the deep-rooted suspicion

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Obstacles Put PLO In State of Paralysis

After Hussein Pullout, Arafat Delays Decision That May Split Palestinians

By Youssef M. Ibrahim
New York Times Service
PARIS — The Palestine Liberation Organization's tortuous quest to achieve self-determination is meeting obstacles presented not only among Palestinian groups, but also by Syria, Israel and the United States.

NEWS ANALYSIS

void created by King Hussein's withdrawal of Jordanian sovereignty over the Israeli-occupied West Bank more than six weeks ago. Yasser Arafat, the PLO chairman, is found suggesting to his guests these days that there will soon be a happy ending to the 40-year-old Palestinian diaspora. "We see," he says, "in the last quarter hour."

But an early indication of what is to come may emerge from a speech to be given by Mr. Arafat on Tuesday in Strasbourg to European Socialist Party leaders. According to Palestinian officials, the PLO chairman, his closest aides and the clandestine leadership of the uprising on the West Bank favor the formation of a provisional government that obliquely recognizes Israel by calling for two Palestinian states to coexist: Israel within its 1967 borders, and a new Palestinian state in the West Bank and Gaza, made up of the 1.5 million Palestinians who live there. Among the other options under study are the following propositions: • Taking the preferred option further by declaring independence and announcing the establishment of a Palestinian state, a move that parallels Israel's own action in 1948. This plan deliberately neglects specifying any borders for the new state, leaving this open to negotiations, Palestinian officials said. It is a plan strongly favored by the leadership of the uprising on the West Bank.



A well-wisher blowing a ram's horn to greet Prime Minister Yitzhak Shamir as he was campaigning in Jerusalem on Sunday.

Israel Seeks Immunity For Purchasers in U.S.

By David B. Ottaway
Washington Post Service
WASHINGTON — Israel is pressing the U.S. government to extend a form of diplomatic immunity to some members of its military purchasing office in New York, an organization suspected of involvement in the illegal export of American military technology, U.S. and Israeli sources said. Negotiations on the issue have been held since early this year, but they have intensified in recent weeks because Israel is seeking a decision from the State Department before the Reagan administration leaves office in January.

A Justice Department spokesman, John Russell, said he was "not at liberty to make any public comment" about the Israeli request. But he said it was "strictly a State Department call" whether immunity was granted. The issue is extremely sensitive because of the suspected involvement of both the Israeli and Egyptian military procurement offices in several cases of illegal exports of military high technology in the past two years.

Bangladesh Faces Grim Future of Floods

By Richard M. Weintraub
Washington Post Service
DHAKA, Bangladesh — Geography, environmental degradation and good intentions gone awry are combining to confront the 110 million people of Bangladesh with the prospect of repeatedly suffering the kind of devastating floods now ravaging their country. Water experts, engineers and longtime observers of this vast river basin are at a loss to find the exact cause of this year's flooding, acknowledged to be the worst in modern times. But there is no doubt that the situation has been building for some time and is a portent of things to come. For the tens of millions now living on waterlogged spits of land or clinging to rooftops as floodwaters swirl nearby, the need now is for food, medicine and some hope that they will see dry land in the near future. A nation used to living hand-to-mouth is facing its most desperate test. Even if it gets past this crisis, however, there is no guarantee of the future.

There has been long-range environmental degradation in the north, massive loss of forests, an expert said last week in Dhaka. "Considering the pace of change, we will see more of this. It has happened two years in a row. We may be on the front of a trend." Satellite maps of this region for the past several years have shown a massive accumulation of silt that has come down from the mountains of Nepal and northern India through the river system. The extensive cutting of forests in the Himalayas for firewood, land and profit is finally reaping a different reward downstream. "The loss of topsoil in the Himalayas is ultimately leading to the flat plains and the deltaic region's waterways getting clogged," said B. M. Abbas, a former minister of water resources in Bangladesh. "The entire Himalayas are being washed off and the region is being drowned in silt and water."

Because great river systems course through Bangladesh, in normal years about 10,000 square miles (26,000 square kilometers), or 20 percent of the country, is submerged after monsoon rains. Fifty-four rivers flow into the country from India, and the Ganges and the Brahmaputra rivers form the largest deltaic region in the world. Statistics from an ongoing World Bank project show just how difficult it is to control the forces of nature in Bangladesh. The bank is funding a 3-mile (4.8-kilometer) bridge over the Jomuna River at a cost of \$500 million. Studies show that it has to be built to survive water flows during the monsoon season of 3.2 million cubic feet (90,000 cubic meters) a second, with underwater sand and silt waves that can reach 40 feet (12 meters) in height. While bank officials say it is technically possible to do "water training" to control the river's flow, again the numbers prove daunting. It is costing \$80 million to build controlling barriers to route the flow of the river for just a mile and a half around the bridge. For that short distance, 30 million cubic meters of silt have to be dredged. Experts agree that the only thing that can prevent Bangladesh from being increasingly submerged in annual flooding is a coordinated plan to control the water where it starts in the Himalayan reaches of Nepal and the mountains of Assam State in northeastern India.

"Flood control in the real sense of the term is not possible in the deltaic region of Bangladesh," Mr. Abbas said. "An effective flood control program requires conservation in the catchment areas and control of the flood flows through construction of storage dams in the hilly head reaches of the river systems." Bangladesh has called for meetings of the leaders of neighboring countries. But even if a political accord is reached, experts doubt that the kind of projects Mr. Abbas suggests are feasible. One engineer with long experience in the area, said: "It would take a dam stronger than almost all those in the United States to control the water flow in some of those Himalayan regions."

• Dusting off the 1947 United Nations resolution, known as Resolution 181, that partitioned then-British-occupied Palestine into Arab and Jewish territories. Although this option implies a claim on pre-1967 Israeli territories, a member of the PLO Executive Committee, Yasser Abdel-Rabbio, hinted last Thursday that this was a starting point in negotiations rather than an attempt to shrink Israel beyond its 1967 borders. • Calling upon the international community to place the occupied territories under a protection mandate of the United Nations, until the status of these territories is decided in negotiations. Palestinian leaders recognize that this solution is certain to be rejected by Israel and the United States, but it will avoid any split within the PLO.

• Doing nothing. This option is based on some of the Palestinian leadership's argument that the uprising is a continuing, and growing, revolt against Israeli occupation that will eventually persuade Israeli public opinion that holding on to the occupied territories is not worth the effort and cost. The view is also premised on the conviction of many Palestinians, that neither Israel, nor the United States, will accept their attitude toward the PLO, no matter how many concessions the Palestinians make. As the Palestinians go through this search, Mr. Arafat is said to have two pressing concerns. One is the need to relieve some of the pressure on the Palestinians under Israeli military rule. The other is responding to international, mostly Western, pressure to moderate the PLO stand.

• Our terms of reference are international legitimacy," said Khalid Al-Hassan, a moderate Palestinian leader who is the most senior adviser to Mr. Arafat and who is said to have drafted the Strasbourg speech. "We must make it clear we condemn terrorism and support the two-state solution," he said in a telephone interview from Tunis. Mr. Arafat's problem remains how to reconcile these demands of international public opinion for a more moderate PLO stand, with threats by extremists within his movement to explode the whole organization under his feet.

An attempt earlier this month in Tripoli, Libya, to reconcile Mr. Arafat's views with those of Ahmed Jibril, secretary-general of the Popular Front for the Liberation of Palestine-General Command, and Colonel Sayed Musa, leader of a breakaway faction in Mr. Arafat's own Fatah group, failed. Both men refused to see the PLO leader. And in Damascus, the Popular Front for the Liberation of Palestine led by Dr. Georges Habesh, the second largest Palestinian grouping after Mr. Arafat's Fatah group, is opposed to the declaration of a provisional state because it implies recognition of Israel.

Iran Opening: Chess Allowed By Khomeini

By Reuters
NICOSIA — Ayatollah Ruhollah Khomeini, the Iranian leader, has ruled that chess is acceptable under Islam, as long as no gambling is involved. The Iranian news agency, mentioned in Nicosia on Saturday, said the ruling was one of several sought by devout Muslims. Ayatollah Khomeini also approved the trading of musical instruments, provided they are not intended for ignominious purposes or uses counter to religious ethics. An early form of chess, which is thought to have originated in China or India, was introduced into Persia in the 6th century.

2 Policemen Killed in Spain

By Reuters
BILBAO, Spain — Gunmen who police said were probably Basque guerrillas shot and killed two policemen in an ambush Saturday in a village near here, an official said.

Carlucci Appeals For a Sustained U.S. Role in Asia

By Reuters
HONG KONG — The U.S. secretary of defense, Frank C. Carlucci said Sunday that the United States should continue to play a prominent role in the security of Asia. In a speech to a business group, Mr. Carlucci said that U.S. defense commitments in Asia had underpinned regional economic success, and he warned against moves toward cutting U.S. military spending abroad. He was ending a one-day visit to Hong Kong after a six-day trip to China. "The U.S. has stood by these commitments through thick and thin," he said, "and our armed forces continue to be stationed in key parts of Asia." "Look at the results. Japan is secure and prosperous. The Republic of Korea has its first democratically elected president in 17 years. The dramatic transformation of the Philippines to democratic government has stirred the imagination of citizens throughout the world." He added: "Only by maintaining the American role and stimulating us to shoulder a burden more proportionate to their economic strength can we deter aggression."

A Strong Bond... CARAN D'ACHE. An advertisement for Caran d'ache pens. It features a large, detailed image of a silver and black fountain pen with the Caran d'ache logo on the barrel. The text 'A Strong Bond...' is written in a stylized font above the pen. Below the pen, it says 'CARAN D'ACHE' and 'CADA'. At the bottom, there is contact information: 'Ask for catalogue and offer with sample: CARAN D'ACHE - DIVISION CADEAUX D'AFFAIRES - 18, chemin du Foron, C.P. 169 1226 THONEX-GENEVE - Tel. 022/480204 Tlx 418570 CDA - Fax 022/486412'.

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INTERNATIONAL Herald Tribune

Shame on Baghdad

Credit the State Department at least for condemning Iraq's "abhorrent and unjustifiable" use of poison gas...

As to the Kurds, few peoples have been sinned against by so many for so long. Their mountain lands lie at the intersection of Iraq, Iran, Turkey, Syria and the Soviet Union...

This Isn't the Time

Two years ago, enough Republicans joined the Democrats in the U.S. Senate to pass an opening South Africa sanctions bill over President Reagan's veto...

which have led us to believe that the sanctions under consideration would work against their own declared purpose of dismantling apartheid...

Who's a Carpetbagger?

Vice President George Bush, who calls Texas home, continues to be hounded as a carpetbagger. Polls suggest that more than half the registered voters in Texas don't think he is a "real Texan."

Harris County's Republican Party chairman in 1962. He then lost a U.S. Senate race in 1964 against the incumbent, Ralph Yarborough...

Other Comment

Britain Gets a Lecture

There is a Western European democratic tradition, according to an impressive series of reports published last week, where the very concept of liberty is under attack by the government...

diminished everywhere." Freedom of information is a fundamental human right. To be able freely to choose who shall govern us, it is first necessary to know how those we put into power behave...

'Bandit Goods' No Longer

After four decades, Taiwan has modified the practice of referring to the People's Republic of China as a "bandit" regime...

After four decades, Taiwan has modified the practice of referring to the People's Republic of China as a "bandit" regime. Until August, all goods imported from the mainland had to be labeled as "bandit goods."

INTERNATIONAL HERALD TRIBUNE JOHN HAY WHITNEY, Chairman 1978-1982 KATHARINE GRAHAM, WILLIAM S. PALEY, ARTHUR OCHS SULZBERGER Co-Chairmen

OPINION

After the High, a Crisis Mood in Moscow

By Flora Lewis

MOSCOW — Conversations in Moscow have taken on a startling new tone. Mikhail Gorbachev's perestroika program has bogged down...

Not only have reforms failed to spur food deliveries, there is little confidence that this can be expected soon.

ideas go very far to much deeper changes in the system than anything mentioned publicly. Said one man, a scholar not normally involved in politics, "The situation here is like 70 years ago" — a reference to the revolution.

reform are "the opposition" and "the resistance." But it was pointed out that Mr. Gorbachev's opponents don't have to do anything to organize, campaign or agitate. It is enough for them to do nothing, just plot on as usual.

Pro-Gorbachev people call themselves the progressives, and claim they are the real socialists, advocating ways to reverse alienation of the workers and achieve a decent society. They base themselves on the words of "the young Marx, before the Communist Manifesto and the ideas on political economy," as one man put it.

The American Campaign: A Short List of Issues

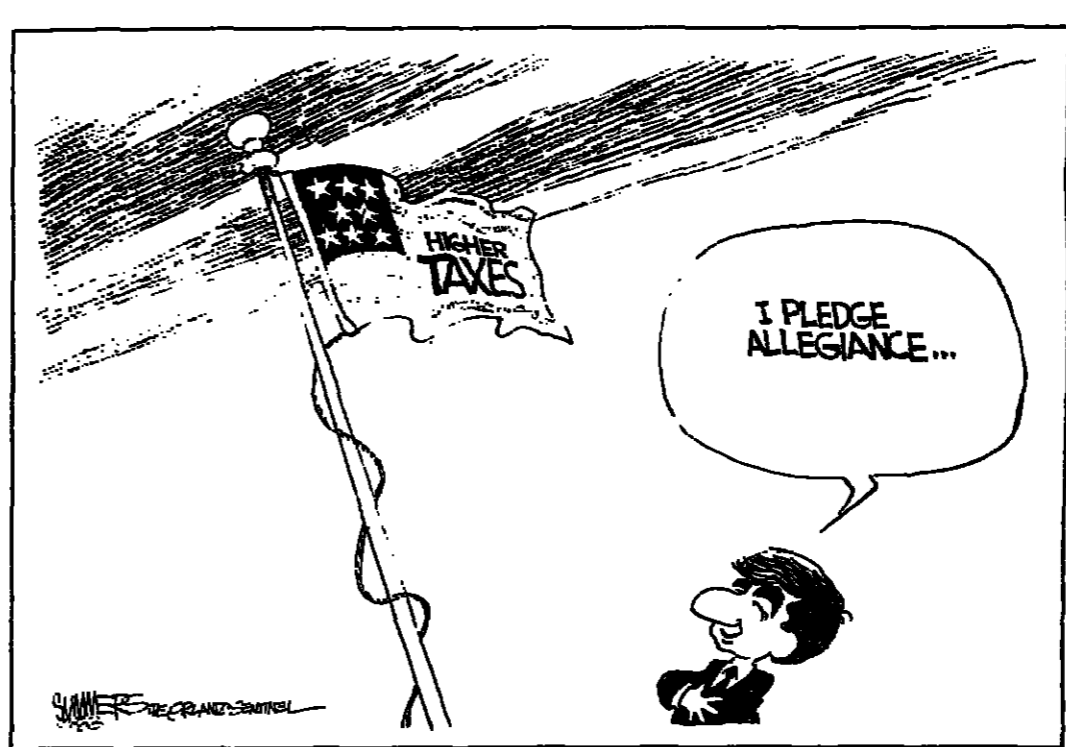
By Anthony Lewis

BOSTON — What are the serious problems facing America? Put that question to Americans, whatever their party or voting inclination, and I think their answers would tend to focus on the same main points:

urban life and now the suburbs, too. American cities are filled but drugs are still easily available. Politicians talk about using the armed forces to patrol the borders — when cocaine is so easy to bring in that no conceivable program will stop the supply.

Education? This administration cut back funds and tried to abolish the Education Department. Its last secretary of education, who said he wanted to lift America's sights, instead took the mucker pose and mocks respect for the Constitution.

Education? This administration cut back funds and tried to abolish the Education Department. Its last secretary of education, who said he wanted to lift America's sights, instead took the mucker pose and mocks respect for the Constitution.



Campaign: Advice to Democrats for a Fresh Start

By Jesse L. Jackson

The writer sought the Democratic presidential nomination.

WASHINGTON — Labor Day, last Monday, was the start of the presidential campaign. The conventions are over, the lazy days of August past. People begin to pay attention and make choices — whom to vote for, whether to vote at all.

five children is growing up in poverty. Millions more grow up in families in which both parents must work to make ends meet.

These are not gloom and doom concerns. They are the fundamental challenges facing this country. How can we fulfill America's promise to its citizens in the years ahead? What strategy will enable us to work ourselves out from under this mountain of debt, invest in our people, rebuild our infrastructure and put America on sound footing again?

George Bush is right about one thing: The election in 1988 is fundamentally about direction. Democrats will win if questions of basic values and direction are addressed and if people are mobilized to register and vote in great numbers.

Bush Should Hammer on the Negatives

THE unequal nature of the economic recovery and its uncertain duration trouble many people, and a majority of Americans favor change in Washington. George Bush has to suppress this voter restiveness and overcome his personal lack of charisma by emphasizing old coalitional ties and maximizing doubts about Michael Dukakis.

Compare this with the irresponsible pledges made by George Bush. Not only will the wealthy not be asked to clean up their mess, their profligacy will be rewarded with a new tax break — lowering taxes on unearned income. Not only will we continue to waste billions on gold-plated military hardware, but there is no commitment to the investments to make us strong from the inside out.

1888: Scientific War NEW YORK — General Abbot's paper on "The Use of High Explosives in War" carries little comfort to those who would like to believe that the march of civilization tends to equalize the chances of the weak with those of the strong. Indeed, the essay leads to the opposite conclusion: The long purse is to be more than ever the parent of the victorious sword.

1913: Aerial Audacity ST. PETERSBURG — By way of encouraging experiments in aviation...

Oil Shock: Even Worse Next Time

By Melvin A. Conant

WASHINGTON — It is becoming clear that America is heading toward energy problems that could be more serious and more long-lasting than those of the 1970s.

The United States has the world's largest oil demand. Nearly half of all the oil used by non-Communist industrialized countries is burned in America. Two-thirds of the oil America uses goes into transportation.

The main focus of energy that America turned to after the 1973 embargo to help reduce dependence on imported oil was electric power. At the time of the 1973 embargo, U.S. utilities were building more than 50 large nuclear power plants.

Today, though, the situation is very different. There is not a major power plant under construction in the entire country that was started in the 1980s, and none are on the drawing boards. Some areas of the United States have already been having electric power reliability problems this summer; the entire country could see them in the early 1990s.

100, 75 AND 50 YEARS AGO

1888: Scientific War NEW YORK — General Abbot's paper on "The Use of High Explosives in War" carries little comfort to those who would like to believe that the march of civilization tends to equalize the chances of the weak with those of the strong. Indeed, the essay leads to the opposite conclusion: The long purse is to be more than ever the parent of the victorious sword.

PERSONAL INVESTING

FOCUS

Election Plays Trickier in '88

SHREWD STOCK MARKET investors have reaped rich profits from playing past presidential elections. But this time, say Wall Street analysts, it will not be easy. Investors will have to place their bets carefully because grim economic reality, not the candidates, will be pushing the market.

It was a little different in past elections. In 1980, for example, investors were counting on Ronald Reagan to lift the economy. While the market generally turned upward, the defense industry did particularly well under Mr. Reagan's game plan. Savvy investors who had bet on the Republican candidate and invested in defense stocks were big winners. Indeed, shares in General Dynamics, Boeing and McDonnell Douglas more than doubled in Mr. Reagan's first term.

There probably will not be any clear winners in the next four years, according to investment strategists. Democrat Michael S. Dukakis and Republican George Bush will have to face high interest rates, increased inflation and a yawning budget deficit. Still, Wall Street strategists note that neither candidate has suggested any ready solutions.

"I don't think the election will make much difference," says Steven Einhorn, investments manager at Goldman, Sachs & Co. "Bush and Dukakis are technocrats rather than visionaries. They will both enter office cautiously and do very little fiscally in their first years."

FOREIGN INVESTORS agree. Chris Johns, a senior economist at Phillips and Drew in London, believes that neither candidate will attack the deficit because that would involve, among other measures, raising taxes. "Europeans will probably be disappointed with whoever gets elected," he says, "because Congress will thwart any efforts at reducing the deficit."

Though a sweeping market response seems unlikely, Wall Street strategists still see some plays based on the election. Almost every analyst mentions health care as a sector that will flourish under a Dukakis administration. His record as Massachusetts governor reinforces his campaign pledge to improve national health care. Analysts feel that stocks in private hospitals and drug companies should both do well with a Dukakis victory.

Because Mr. Dukakis has stressed bolstering America's industrial production as a means of lowering the trade gap, strategists also like roadbuilding and construction companies that will be involved in the rebuilding of factories and cities.

On the other hand, some analysts say luxury and consumer goods companies might take a hit if the Democratic candidate gets elected. Michael Metz, a market strategist for Oppenheimer & Co., makes this prediction because he believes that Mr. Dukakis will want to attack the government's deficit by raising tax rates on high-income groups and introducing a new series of consumption taxes.

The single industry most likely to benefit from a Bush administration, say Wall Street analysts, would be the oil industry. The reasoning is simple: Bush is a former oil man who would be sympathetic to the needs of the industry.

Of course, some analysts argue that a Bush election will be an opportunity for quick profits across the board. The market will respond well to a Republican being elected because of the Reagan legacy and because the party has been traditionally pro-business. But David Robins, chief strategist at US Securities in New York, expects only a brief upswing and expects to be a seller of equities soon after the election.

Almost every analyst picks one sector to avoid whether Mr. Bush or Mr. Dukakis gets elected: defense contractors. With the agreement on intermediate range nuclear weapons recently ratified, an agreement on strategic weapons possible in the next few years, and the Pentagon scandal still unresolved, investment strategists are sure that no president will go on a defense spending spree anytime soon.

Gerard F. Griffin

UPDATE

Futures Funds: A Sharp Setback

SEVERAL MONTHS AGO Dimesh Desai thought he spotted the kind of prolonged trend in the futures market that helped his McCormick Commodity funds generate triple-digit gains last year.

As a "trend-follower" who chews fundamentals such as inflation or economic and political developments, Mr. Desai depends on elaborate computer models to track price movements in the futures market to determine when to buy and sell. And Mr. Desai was clearly in a buying mood after the impact of this summer's drought on crops in the United States, grain prices rose 50 percent in May and June.

He was not the only futures fund adviser to expect a sustained upward trend in prices. The problem was that the trend did not last. Midsummer rains ended the rally and grain futures gave up most of their gains in July and August. In one month, the net asset value of Mr. Desai's funds tumbled 11 percent; the average commodity fund saw a 7.2-percent loss.

Indeed, contrary to widespread suspicions, the recent drought did not prove a boon to the nation's publicly traded commodity funds. In the first seven months of the year, commodity funds rose only 9.4 percent, lagging the Standard & Poor's 500 index's return of 12.3 percent.

The mediocre performance can be traced to markets that have advanced or fallen in fits and starts rather than moving in the clear, easily identifiable trends on which fund advisers thrived, according to Morton Baratz, editor of Managed Account Reports, a newsletter based in Columbia, Maryland, that tracks the industry.

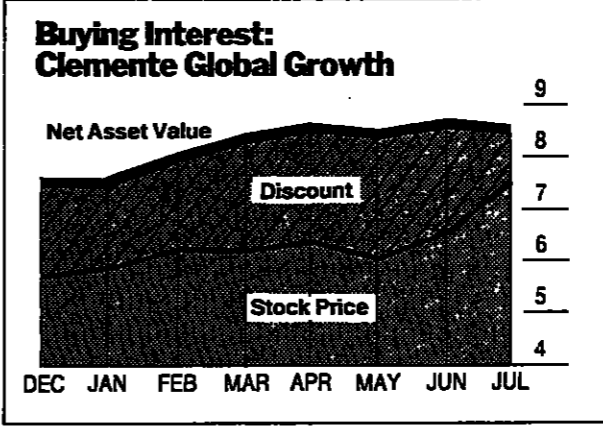
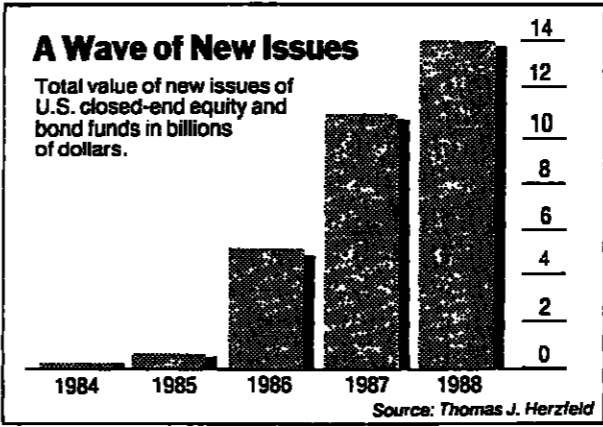
Mr. Desai agrees. "If it had been a smooth 180-degree turn, things would not have been so bad," he says. "But the market sawsawed on its way down, and we suffered losses."

A good example can be seen in interest rate futures. After initially declining, interest rates began to advance in February, a flip-flop that upset the computer programs of many fund advisers and resulted in losses.

Moreover, the dollar's new-found stability early in the year caught many funds unaware. The sub-

Continued on Page 10

Bargain Hunters Move In on Closed-End Funds



Thomas B. Pickens 3d has some experience bidding for deep-discount closed-end funds.

The steep discounts on some issues lure major players.

By Cynthia Catterton

CLEMENTE Global Growth Fund suffered the fate of many closed-end funds last October. Its stock price sank far below the underlying per-share value of its portfolio, creating a yawning discount that persisted into the winter months.

In January, Thomas B. Pickens 3d, the 31-year-old son of the corporate raider T. Boone Pickens, decided that the 33-percent discount on the year-old fund that invests in emerging markets and smaller companies worldwide was just too inviting. Since then, he and some friends have scooped up about 18.4 percent of Clemente's 6.1 million shares.

The group offered to buy out the management contract of the \$50-million fund, an offer that Clemente management flatly refused. Indeed, Clemente has filed a lawsuit to try and force Mr. Pickens to disclose his intentions. But Mr. Pickens refuses to discuss his next move other than to say that the fund's assets could be handled more effectively.

"I don't see why shareholders should be taxed with the difference between the share price and the asset value just because management wants to hold onto their contract," insists Mr. Pickens. "There's nothing special about the fund to justify that."

While Clemente's management disputes Mr. Pickens's criticism, few observers would deny the timeliness of his thrust into the closed-end fund sector. Several professional investors and brokerage analysts have zeroed in on closed-end funds as offering some of the most clearly undervalued situations in the market.

Like mutual funds, closed-end funds are investment companies whose portfolios of stocks and bonds are managed by an advisory firm. But unlike mutual funds, closed-end funds have a fixed number of shares outstanding. Thus, the fund can trade at prices above or below the per-share net asset value of the underlying portfolio, depending on the balance between supply and demand for the fund's shares.

The proliferation in closed-end funds in the past few years has put increasing pressure on share prices to sell at a discount because demand has not kept pace with supply. So far in 1988, 40 new funds have come to market this year, raising more than \$14 billion, according to Thomas J. Herzfeld, president of a closed-end fund investment advisory firm. That number has already surpassed last year's total, which was a record at the time, of 35 new issues worth roughly \$11 billion. By comparison, 10 years ago the entire closed-end

Continued On Page 8

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Among U.K. Funds, It's Dog-Eat-Dog

IT HAS been barely three months since Edinburgh Fund Managers lost their battle to retain control of the \$200-million Crescent Japan Investment Trust to a group of shareholders led by the U.S. partnership Sterling Grace. In the end, the investment trust — as closed-end funds are called in Britain — was liquidated.

Now directors at EFM are wondering what to expect from Robert Maxwell, whose investment company, London and Bishopsgate International Investments, has announced a 22-percent stake in the EFM-managed New Tokyo Investment Trust, a \$134-million investment trust that specializes in Japanese smaller-

company shares and trades at a 12-percent discount to its underlying assets.

A spokesman for Mr. Maxwell declined to comment on his plans for his holdings, but directors at EFM are concerned that they might find themselves in a bitter dispute once again. "We have alternatives, but we can't do anything until we know what Mr. Maxwell wants," says Iain Watt, director of the New Tokyo trust.

Whatever the outcome, such predatory maneuvers are becoming almost commonplace among British closed-end funds, a \$37-billion industry that has been undergoing consolidation for the past decade. In the last 12 months, more than a dozen investment trusts

have been taken over, restructured or liquidated.

Analysts blame Big Bang, Black Monday and the arrival of the American investment houses for the current wave of activity. But it is the erosion of support by institutional investors, who have accounted for roughly 75 percent of investment trust shareholdings, that has put investment trust managers under increasing pressure to narrow discounts and attract more private investors.

"Gone are the days of the loyal, old boy network. It's dog-eat-dog out there now," says Hamish Buchan.

PROFILE

An Asia Hand's Long-Term View

By Coleen Geraghty

IT WAS 24 years ago that Richard Thornton first visited the Far East as a young investment manager for Foreign & Colonial Trust. The region has changed a lot since then, but not Mr. Thornton's enthusiasm for a part of the world that offers investors huge opportunities and equally harrowing risks.

"I believe the same opportunity exists today in what we call the 'tiger' economies — South Korea, Taiwan, Hong Kong and Singapore," says the chairman of Thornton & Co., a manager of \$1.5 billion in assets that was recently acquired by Dresdner Bank of West Germany. Over the next decade, "the tiger economies will be hard-pressed to show less than 8 percent annual economic growth," says Mr. Thornton.

But he adds a typical caveat: "It's not all going to happen in 10 minutes, and there could be quite a nasty bear market in the short term."

Indeed, the volatile swings between risk and reward in the region can be seen in the performance of two Thornton funds that specialize in these smaller Asian markets. Since the first of the year, Thornton's \$16-million Little Dragons Fund is ahead a hefty 70 percent, and the \$87-million Tiger Fund has surged 53 percent. That makes them the top performers in that period among about 200 Asian funds

tracked by Wyatt Co. in Hong Kong.

But even that impressive showing has not canceled out the devastating effects of the stock market setbacks that culminated in the October 1987 crash. Both funds are 20 percent below their year-ago levels. It is hardly surprising that Mr. Thornton longs for the return of the long-term investor.

Looking back on October, "the most frustrating thing" was how panicky fund holders rushed to redeem their units, he says. To meet the redemptions, he recalls, "we were forced to sell stocks we knew were desperately cheap. Later, we watched those stocks double and triple in value."

"The short-term mentality of our unit-holders has been one of the biggest disappointments for me," says the 57-year-old Mr. Thornton. "Although our funds have held up well in size, the turnover of the unit-holders has been appalling. People cannot have made money, and certainly they have not acted in their own interest."

But few investors could be expected

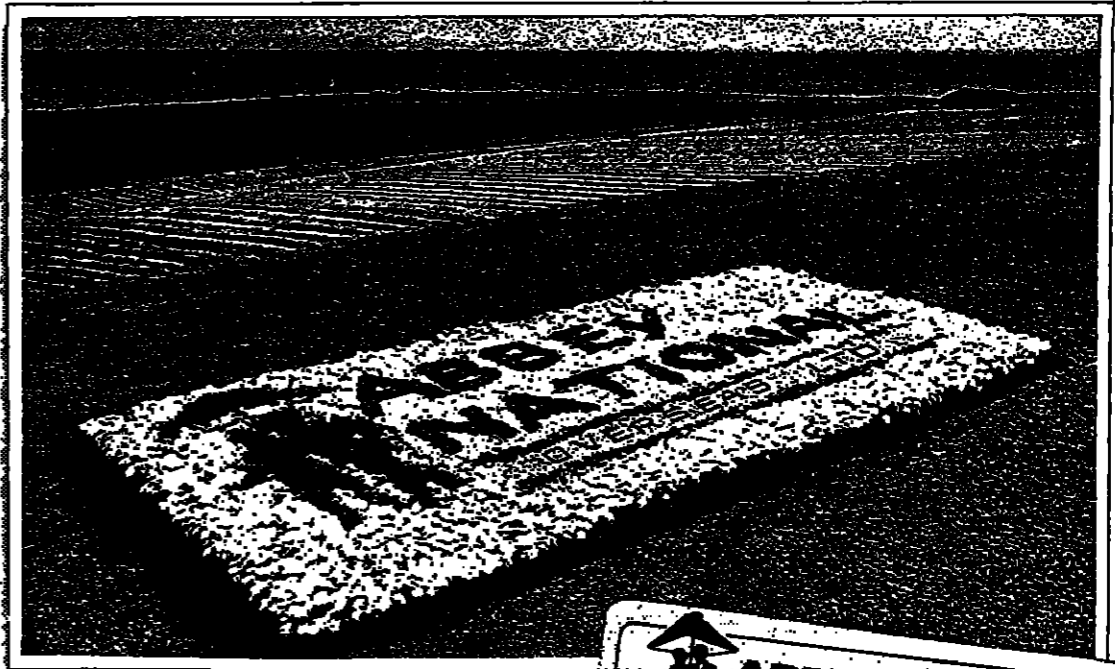
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Richard Thornton says the big worry is whether the White House will be won by a protectionist.



Richard Thornton: A perspective on Asian markets.

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FUNDS

Bargain Hunters Target U.S. Closed-End Funds

Continued From Page 7

fund industry was made up of some 60 funds worth about \$8 billion. To date, there are more than 100 listed in the United States trading at an average discount of about 12 percent.

Closed-end funds with steep discounts draw buying interest for the same reason that investors converge on ordinary companies whose shares are perceived to be undervalued.

Mr. Picken and his friends, John and Oliver Grace of the investment firm Sterling Grace, are becoming experienced hands at this gambit.

In June, the Graces picked up another couple of million dollars when they led a group that forced the liquidation of a \$200-million U.K. closed-end fund, Crescent Japan.

But the Clemente Global Growth Fund is not the only fund that has caught the attention of bargain hunters. In the past year, a number of investor groups have taken advantage of the steep discounts to acquire large stakes in such closed-end issues as the Italy Fund, First Financial, Financial News Composite and Greater Washington Outlook.

In December, Alexander M. Vik, a vice president at Smith Barney, for example, used the 49-percent position he had acquired along with his father and brother, to take over the management of the \$55-million Scandinavia Fund.

months a change to the fund's investment strategy. "Rather than betting on 50 or 100 different companies that in the end reflect the market, we want to become more focused by taking a sizable position in 5 or 10 companies."

A raid is not always good news for a fund's shareholders. In fact, performance can suffer.

discounts to increase his position in the \$80-million France Fund to 26 percent, and in the \$55-million Italy Fund, to more than 5 percent. However, he says he does not plan to make an offer for either one of these funds.

A Case of Dog-Eat-Dog Among British Funds

Continued From Page 7

an analyst at County NatWest WoodMac in Edinburgh. "Managers know they can no longer count on the institutions."

Institutions want to divest themselves of their positions in investment trusts, some of which have been held since the 1940s. In many cases, the managers no longer need to pay outside managers for a service they have become sophisticated enough to do for themselves, analysts say.

Moreover, changes in the British tax budget have set the base date at which investors calculate capital gains tax from 1965 to 1982, relieving institutions of tremendous tax liabilities from long-held investment positions.

Analysts say predators started sniffing out trusts shortly after the stock market crash last October forced discounts in most trusts to widen. Trusts with securities in the Japanese market were particularly vulnerable because discounts in some cases doubled to more than 30 percent while the Japanese stock market showed unrivaled re-

and the discounts, until very recently, were quite attractive. Some observers expect to see the \$500-million Liberty All-Star Equity Fund in play in the months ahead.

Mr. Bogle still holds his position in the fund, but has not formally announced plans to pursue his proposal. "You can draw your own conclusions," Mr. Mattes says.

TO BE SURE, fund managers have become increasingly aware that persistently wide discounts invite shareholder insurrection. Although closed-end funds already in existence can do little to adopt defensive provisions without the support of two-thirds of the shareholders, newer funds are

including antitakeover bylaws in their charters. Moreover, many are including deadlines when shareholders can vote on whether the fund should be restructured into a mutual fund.

Clemente's board has also adopted a 10-percent share buy-back program to prop up the share price and narrow the fund's discount, another common tactic among managers.

Experts say there is no sure fire way to pick which funds will be future takeover candidates. In fact, Mr. Clemente insists his fund is a poor choice for a takeover

because its assets are not easily sold off. Mr. Herzfeld recommends that individuals should start by looking for a well-managed fund selling at a deep discount.

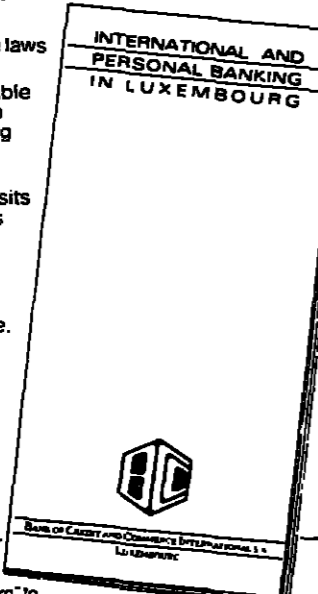
Currently, a model portfolio offered by Mr. Herzfeld recommends positions in four closed-end funds: Asia Pacific, Excess Income Shares, First Financial and the Mexico Funds.

Footly managed funds trading at deep discounts could also represent an opportunity, he acknowledges, because they are vulnerable to takeovers. However, he cautions that "shareholders should not jump for joy just because a raid on their fund is announced."

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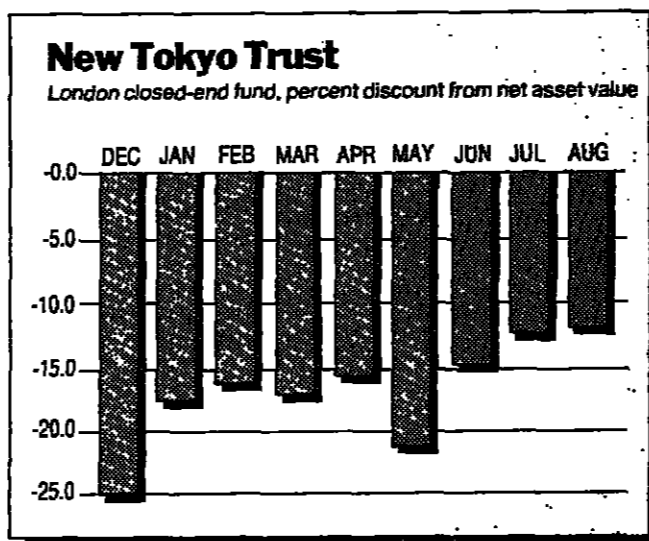


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Herald Tribune



At the same time, many institutions were open to ways to regain their lost funds, allowing raiding parties to obtain sizeable positions in a few trusts and promoting cooperation among fellow shareholders.

to them. For example, investment trusts may borrow money and invest in unlisted securities, activities denied their open-end counterparts, the unit trusts.

"They were operating as effectively as unit trusts, but with the added risk of a volatile discount," explains Mr. Buchan at County NatWest.

With the average discount on Japanese funds down to about 18 percent, analysts suggest that this sector may be losing its appeal. More vulnerable these days, they say, are the general purpose trusts of British blue-chip stocks.

This is just the type of trust the \$17-billion British Coal Board Pension Funds, managed by CIN Management Ltd., bid for in late August. According to Barry Southcott, a managing director at CIN, the coal board's pension unit built up its 36.1 percent positions in the \$1.02 billion TR Industrial and General Trust in the last year.

approval of the bid, have not been officially announced.

The coal board pension fund has been involved in takeovers in the past. For instance, it acquired Drayton Premier Investment Trust in 1985, a \$350 million blue-chip portfolio and turned the trust's management over to British Investment Trust.

Less threatened are specialized funds such as those in the venture capital area, where there may be a high proportion of unquoted shares. The assets of such trusts may be difficult to liquidate, and potential predators may lack the investment expertise to manage the portfolio.

Although in the short term there is little fund managers can do to ebb the flow of institutional interest away from the investment trust market, many have begun concerted efforts to encourage private investors to start buying into the trusts.

Cynthia Catterson

PROFILE

Richard Thornton: Betting on the Tiger

Continued From Page 7

to have the confidence that long experience like Mr. Thornton's confers. After the stint with Foreign & Colonial, he became the Asian specialist for GT Management, which he founded in 1969 with Thomas Griffin.

Mr. Thornton, who lives in London, visits the Far East less frequently these days, relying instead on the Hong Kong headquarters' 80-person staff headed by Peter Everington, director of Thornton Management Asia. But on a recent visit, Mr. Thornton was struck with the similarities between the Japan he came to know two decades ago and the South Korea of today.

"It is patently clear that the Koreans are going to make a go of it," he says. "They are absolutely dedicated to defeating the Japanese on the economic battlefield. The comparisons between Japan before the 1964 Olympics there and Korea before the 1988 Olympics are startling."

Few observers would quibble with his description of the Philip-



The emergence of other "tiger" nations in Asia is likely, he believes.

pinas as "a mess." Still, Mr. Thornton believes Philippine companies such as San Miguel and Philippine Long-Distance, whose American Depository Receipts trade on the American Stock Exchange as well as in Manila, offer outstanding value.

The emergence of still other "tiger" nations in Asia is likely, says Mr. Thornton. "If one defines tiger economy in terms of industrialization, then there will be further tigers in Asia," he says.

open a stock market, but you can have the tiger effect without a stock market.

A major threat to the progress of all Asia's smaller markets is protectionism. Mr. Thornton warns a look at the dependency of the Asian nations on exports to the United States is a measure of the danger. A recent study by A. Gary Stilling & Co., a New York economic consulting firm, estimated that shipments to the United States accounted for about 37 percent of South Korea's exports in 1987, up from 26 percent in 1980.

Like many other firms that follow Asian markets, Thornton is particularly worried about how a Democratic president would respond to domestic pressures for sweeping trade barriers. "Korea could be quite vulnerable if the Americans elect (Michael S.) Dukakis," says Mr. Thornton.

The Asian "tigers" would probably be able to deal with piecemeal trade measures, says Mr. Everington. "The wholesale protectionist legislation is what we fear. If it comes too fast and too heavy, there won't be time to get out of the way."

In Japan, the big opportunities in coming years will be among smaller companies, Mr. Thornton figures. The shares of Japan's smaller companies lagged the blue-chips through most of the rally that began in August 1987, but have outperformed the larger issues for much of this year.

even while the Nikkei index of blue chips remains rather flat.

Mr. Thornton allows that, when it comes to these smaller companies, "the risk factor is going to be quite high if you get it wrong." But his investment approach, characterized by some who know him as economic, has never put a high premium on diversification. In some portfolios, run for private charities, where advisers are not constrained by limits on how much may be invested in a single issue, he has been known to bet more than 30 percent of the assets on one company.

"I don't see any advantage in the standard wisdom of diversifying your risk among too many companies," he acknowledges. "I don't believe you can make serious money doing that."

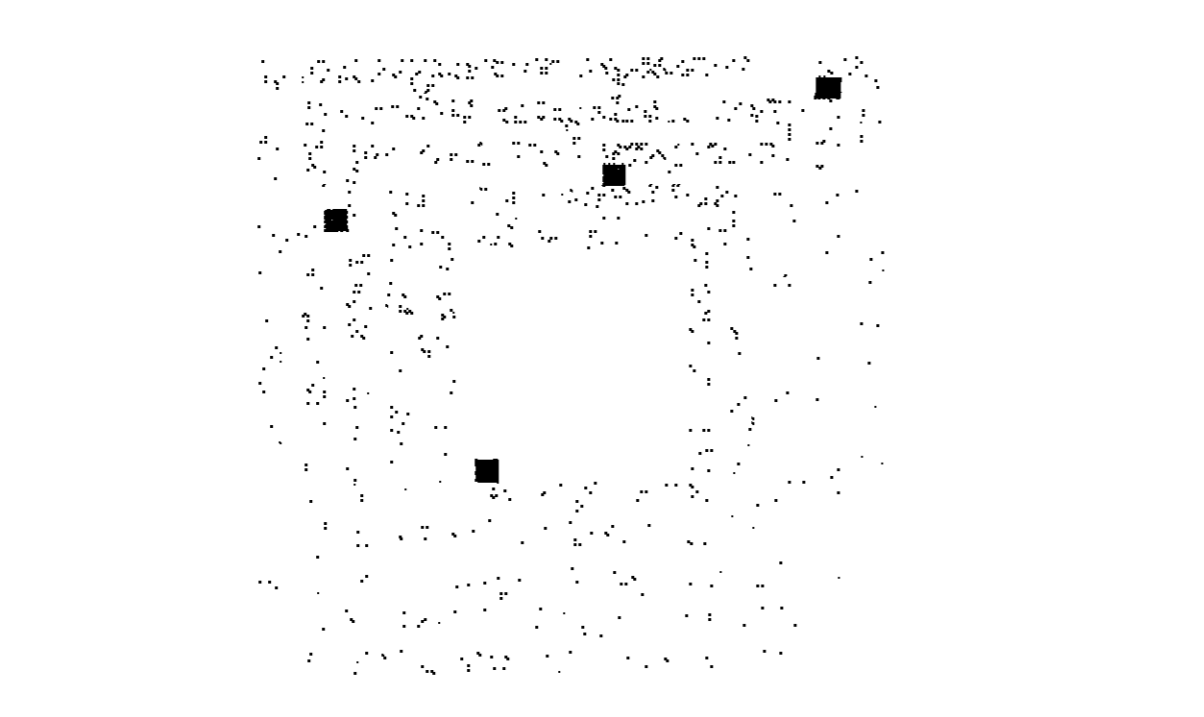
Though such drastic commitments would not be made by Mr. Thornton's firm in the funds it offers to the public, the company has a reputation for taking a definite view on the markets. "Although they are very aggressive, they often get it right," says Michael Smith, managing director of Connaught Strategic Holdings, a Hong Kong-based company that selected Thornton as manager of its World Growth Fund and Pacific Enterprise Fund.

Despite its reputation as a firm with a good grasp on Far Eastern trends, last October's crash, which devastated several of the small Asian markets, marked the beginning of the end of Thornton's independent existence. Before the crash, Thornton & Co. executives had discussed taking the firm public in an offering of £100 million. The October crash, however, closed that avenue.

THEN ALONG came Dresdner, and a deal was struck to sell 73 percent of the firm to the German banking group. The price was said to have been around \$25 million. Says Mr. Thornton philosophically: "There was no way that they, being cautious German bankers, were going to buy at pre-crash levels."

The relationship gives Dresdner a new level of investment expertise in the Far East, while Thornton gained the support of a world-class German banking group. As always, Mr. Thornton cannot resist putting it all in the long view. "If this venture is as successful as I think it's going to be," he says confidently, "then the crash, despite the short-term pain, may turn out to be the most fantastic long-term panacea."

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BOURSES

Cashing In On Worries About Waste

By Gerard F. Griffin

THE MEDICAL WASTE... THE MEDICAL WASTE that littered East Coast beaches this summer forcefully reminded the public that garbage does not just go away...



A New York City sanitation official displays medical waste found on beaches.

percent of the country's trash, are filling up. The EPA estimates that within 10 years one-third will be full...

SINCE BUILDING the country's first waste-burning plant in 1975, Wheelabrator has added six more plants which burn a total of 12,200 tons of garbage a day...

With 1987 revenues of \$1.9 billion — more than any other waste company — Waste Management provides a comprehensive range of services, including garbage collection, recycling and solid waste disposal.

Mr. Augenthaler at Dean Witter estimates that the company's earnings will go from \$1.46 to \$1.85 per share by the end of 1988, and to \$2.20 the following year.

Any company that treats infectious waste — or "red bag" waste, as material from medical facilities is called — is sure to benefit from the recent media coverage.

A pure play, though, is hard to find. Kenneth Leung at Smith Barney points out that Waste Management has two plants for disposing of infectious wastes, but they generate only \$10 million in revenues, a tiny fraction of the company total.

Mr. Leung prefers Browning-Ferris Industries, a \$1.3 billion company based in Texas. Though BFI

mostly handles solid waste, it operates 16 infectious waste plants around the country that last year generated \$20 million in revenue.

One company is small enough that its medical waste treatment facility brings in a good part of its revenues: Massachusetts-based Clean Harbors Inc., which reported revenues of \$73 million in the year ended February 1988.

Clean Harbors' share price has jumped from \$9 to near \$16 in the last month.

Germany's Junior Market

Things are looking up for Geregelter Markt.

By Polly Ross Hughes

FOLLOWERS of Britain's Unlisted Securities Market and France's Second Marché can point to a fair number of success stories about smaller companies that went public on those exchanges...

By contrast, West Germany's junior exchange — the Geregelter Markt — was a late-comer and paid the price. Last October's stock market crash hit just as the Geregelter Markt (which means "regulated exchange") finished its fifth month of existence.

But things seem to be looking up for the Geregelter Markt, say West German analysts. The new-issue pace picked up in the summer and is expected to continue at a respectable level...

As evidence, Mr. Buerger points to the growing list of applications by West German companies interested in going public, including 14 specifying 1988 as the target year.

Another standout, in Mr. Legat's view, is BBS Kraftfahrzeugtechnik, located in the tiny Black Forest town of Schiltach. BBS was founded in the early 1970s by two young automobile racing buffs who literally reinvented the wheel.

Today BBS's primary clients are the giant German automobile manufacturers, BMW and Daimler-Benz, says Bernhard Schinnerling, a director of initial public offerings at Deutsche Bank.

"They are in the upper segment of the wheel market," says Mr. Schinnerling. "There is such a heavy demand for the BBS wheels that the big car manufacturers forced these people to increase their production."

In May 1987, BBS financed its expansion with the issuance of 4 million DM of nonvoting shares on the Geregelter Markt. The founders own all the company's 5 million DM of voting stock.

A key to the company's strategy has been international growth. The company's 1987 sales of 118.4 million DM included 77 million DM in sales abroad.

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"How can I diversify my investments if I only have US\$2,500?"



"Diversification" is the magic word in investment these days. Everyone wants to spread their investments over a range of economies, currencies, and business types. But how can the small investor do this if he only has US\$2,500? Scimitar's "collective" fund concept...

Rosy Earnings Outlook

Table with 4 columns: Company Name, Fiscal Year-end, 1987, 1988, 1989. Rows include Wheelabrator, Browning-Ferris, Waste Management, and Clean Harbors.

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BOURSES

U.K. Probe Clouds Outlook in Brewery Stocks

Longer hours in the pubs seen benefitting stocks in the long run.

By Marybeth Nibley

TO THE CASUAL observer, the British government's decision last month to extend the hours that the pubs can remain open should have cheered stocks in the nation's publicly traded brewers. But instead of a rally, their shares have mostly languished. The ambivalence, analysts say, stems from a government inquiry into beer retailing practices that began in 1986 and is expected to end early next year. And the ensuing debate about the possible outcome of the Monopolies and Mergers Commission investigation has restrained enthusiasm for the sector. "I think overall we would be mildly positive on the sector with a hint of caution," says Eric Frankis, who tracks the industry for Phillips and Drew. Kevin Feeny, a drinks industry specialist at Warburg Securities, adds: "The outlook for the industry as a whole is dominated by the commission report. The effect it might have on the domestic industry has cast a shadow over all the stocks."



Quaffing a pint at the White Horse Pub in London near Fleet Street.

Minister Margaret Thatcher and the spirit of pan-Europeanism gaining strength as European Community members move toward a more integrated market. Speculation centers on a number of compromise solutions. Pubs might be sold or swapped so that certain breweries would no longer have geographic domination in certain areas of the country. Measures, such as compulsory stocking, might be introduced to preserve lesser-known, regional brands. Susan Leslie of Merrill Lynch Capital Markets is among the analysts who believes that the depressing effect that the upcoming inquiry has had on the sector is largely unjustified. Some companies would thrive if all public houses were free to serve whatever they wanted to serve, she contends. Keeping in mind the value of retail outlets owned by brewers, she notes that the brewers' stocks often trade at a substantial discount to their asset value. Moreover, the recent decision to extend pub hours is bound to benefit public houses. Starting last month, pubs in England and Wales may stay open for 12 hours a day, from 11 A.M. to 11 P.M. except on Sundays, when they may now stay open another hour in the afternoon until 3 P.M. Previously, establishments had to close between 3 P.M. and 5 P.M. on weekdays and Saturdays and between 2 P.M. and 7 P.M. on Sundays. (Scotland relaxed the rules in 1976.) The restrictions curtailing afternoon hours had

been in force since World War I, when the control of drinking was deemed a prudent move in the interest of the war effort. If the experience in Scotland is any guide, alcohol sales are not expected to boom because of the lengthier trading day. But Kenneth Dunjohn, spokesman for the Brewers Society, says removal of the restrictions will put pubs on more equal footing with competitors, such as fast-food eateries. "Trade in pubs but not in beer will grow," says Mr. Dunjohn. "We don't anticipate that the increased hours will lead to higher sales of alcohol." The real beneficiaries may be breweries that have been spending heavily on refurbishing their retail outlets in hopes of attracting a class of clientele with plenty to spend on eating and drinking with disposable income and leisure time on the rise in Britain. To appeal to customers who in many cases may be more interested in sipping wine than in quaffing pints, pubs have been upgraded. At the Scarsdale Tavern in the fashionable Kensington neighborhood of London, manager Fred Hill notes that the pub is now equipped to serve teatime fare, including scones and jam, to afternoon patrons. Demand for the expanded service, and for the more standard pub beverages, was slow just after Aug. 22 when the restrictions were lifted. But like

most other pubs, the Scarsdale, which is owned by Grand Metropolitan PLC, intends to stay open all day on a trial basis before deciding whether the extra receipts are enough to justify extra overhead costs. The National Licensed Victuallers' Association predicts that about half of the pubs in England and Wales will stick to the old hours. Given such uncertainties, analysts say investors interested in the sector should ignore regional brewers and focus their attention on the major companies. These include Allied Lyons PLC, Bass PLC, Grand Met, Guinness PLC, Scottish and Newcastle PLC and Whitbread and Co. PLC. Michelle Proud, an international drinks industry analyst with County Natwest, says Bass is at the top of her list. Long considered the blue-chip of the sector, Bass has demonstrated adeptness at both brewing and distributing. It also controls about 25 percent of the larger market, the fastest-growing segment of Britain's beer industry.

IN ADDITION, its management, she says, is well regarded and the acquisition of Holiday Inns International, which was finalized last May, gives Bass a bigger presence in the important leisure industry. Still, Ms. Proud acknowledges that market's enthusiasm for Bass has been tempered because the Holiday Inns purchase will dilute earnings in the near term and also by the perception that Bass may suffer if the government decides to modify the tied-house system. Ms. Proud's other picks are Grand Met and Guinness. Acquisition and reorganization have transformed Grand Met into a food and spirits giant with a long list of widely recognized brands in its portfolio. However, some analysts are wary of buying Grand Met stock because of its current takeover battle for Irish Distillers Group PLC. Guinness also has undergone a transformation and new management have been praised for laying the basis for steady earnings growth in the next few years. Sceptics are still wary, however, about the financial impact of the scandal over Guinness' takeover of Distillers. In the view of other analysts, Allied Lyons stock has been looking attractive. And there is also the possibility that it could become a takeover target. The Bond Corp. currently holds about a 7 percent stake in Allied Lyons. Whitbread is another stock considered undervalued by some analysts who have been encouraged by the company's North American acquisitions. Admirers also liked Whitbread's push into the retailing segment of the drinks market. It owns Pizza Hut in the United States and TGI Friday restaurants in Britain.

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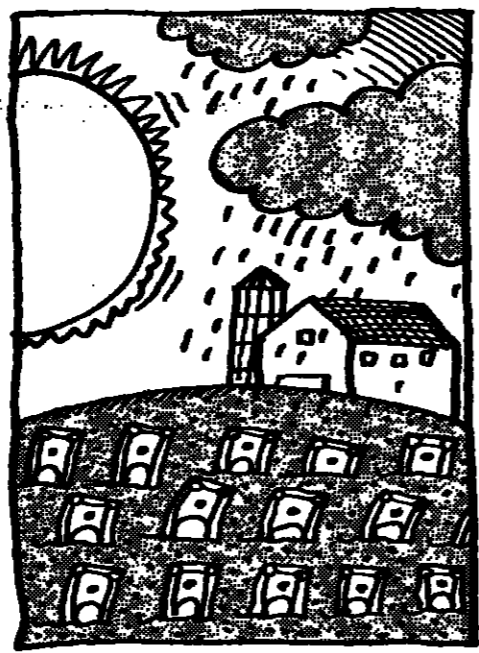
REAL ESTATE

Reassessing U.S. Farmland: Potential Buyers Less Eager

The drought setback may be temporary.

By Elena Bowes

NEW YORK MOST experts agreed that the five-year slide in farmland values had finally come to a halt. For the first time since 1982, the average value of agricultural property rose. Land values rebounded a modest 3 percent to \$564 an acre and net farm income reached record highs. Then came the drought of 1988. Suddenly, the fundamentals that were behind the resurgence in farmland values seemed inconsequential. And even though most experts doubt that this year's drought marks the beginning of a long dry spell, prices stalled. "The predominant buyers of land are active farmers adding onto their existing units," explains Lawrence Leistritz, a professor of agricultural economics at North Dakota State University. "The drought makes them less eager." Indeed, the mood of potential buyers is considerably less ebullient than earlier this year when strong export demand, lower production costs, direct federal aid and rising income levels continued to buoy the price of farmland. Randall Hertz of Hertz Farm Management, a real estate concern in Nevada, Iowa, that specializes in farmland, remembers how "red-hot" the market was last winter. "A lot of properties sold above their listing price because the market was moving up so rapidly," he says. By some accounts, top quality farmland appreciated 30 percent in Iowa, 20 percent in Illinois and 15 percent in Indiana and Ohio since 1986's market low. Mr. Hertz does not expect the slow turnover that has gripped the market in the last couple of months to materialize into lower prices for farmland immediately. Similar to last year's predictions that the stock market crash would take six months to a year to affect the prices of New York's residential real estate, Mr. Hertz thinks that the "day of reckoning" will take a bit of time. "It takes a little while for the fear to sink in," he says. Some experts contend there already is evidence of lower land prices in the areas hardest hit by the drought. These include the ranchlands of Montana, drought-stricken lands of the Great Plains, most of the Dakotas and the heart of the corn belt. The drought has already pushed values of the poorer tilled lands down by 15 percent, they say. But this might be only a temporary setback. The price of farmland is closely tied to farm income, and commodity prices rose sharply in response to the drought. The U.S. Department of Agriculture estimates that this year's crop receipts will be \$6 billion more than 1987's level, with half the increase due to above 1987's level, with half the increase due to inflated prices as a result of the drought. Philip Raup, a professor of agricultural economics at the University of Minnesota at St. Paul claims to know "farmers who will have the highest incomes of their careers this year." Moreover, many farming areas in the United States escaped the ravages of the drought. Farming communities in the south central and southeastern United States fared relatively well and the upward trend in farmland prices continues. Prices in Grayley County in western Kansas have improved 15 percent over the last six months, according to Benedict T. Palen Jr. of Palen Farms, a Denver-based real estate farm management concern. "It's not a year in which you want to plunge in any one direction," says Mr. Raup, warning that the final



effect on land values is not certain and will probably be spotty. One gauge, however, will be the Department of Agriculture's report on the drought's impact on crops during August, which is scheduled for release Monday. In addition, experts believe that a dry autumn and winter could further upset the market for farmland. Nevertheless, experts note that investing in farmland has always called for a long-term commitment. James B. Candless of AgriVest, a Glastonbury, Connecticut firm that specializes in farmland investment, tells investors that they should be prepared to hold the property for 7 to 10 years. Indeed, major institutional leaders have acquired, primarily through foreclosure, about 8 million acres of farmland, valued at \$3.8 billion, according to researchers at the Department of Agriculture. This should keep a lid on prices, at least in the short term. Also, "there is still a lot of government subsidy being bid into farmland prices. If Europe and the U.S. can agree on some lower farm subsidies then you'll see some downward pressure on prices," says Alan Barakoma, an economist at the Federal Reserve Bank of Kansas City. TIME IS NOT the only requirement. An investor needs at least \$10,000 "to make the investment meaningful," says Mr. Palen. And even at \$10,000, Mr. Palen recommends going in with some partners "to buy three or four properties with different attributes to spread the risk." In general, an individual interested in farmland has three kinds of limited partnerships from which to choose. In custom farming, the riskiest and potentially most rewarding strategy, the investor pays all the farm's expenses and reaps all its rewards. Less risky and less profitable are crop share leases, or bushel leases. With this method an investor shares the costs with the landowner and gets a percentage of the crops' return. Both custom farming and the crop share lease benefit from higher commodity prices. They also suffer from price declines. As a precaution, Mr. Palen advocates hedging with commodity futures market, as well as investing in crop insurance. The third and most conservative choice, the cash lease, makes no attempt to bet on commodity prices. Investors selecting this form of partnership only bet on the eventual capital appreciation of the land. □

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Dollar Straights

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Table listing bond prices for various French government and corporate bonds.

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Table listing bond prices for various German government and corporate bonds.

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Table listing bond prices for various Japanese government and corporate bonds.

Supranational

Table listing prices for various international and supranational bonds.

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Table listing bond prices for various US government and corporate bonds.

Yen Straights

Table listing bond prices for various Japanese government and corporate bonds.

Mutual Funds

Figures as of close of trading Friday

Large table listing various mutual funds and their performance metrics.

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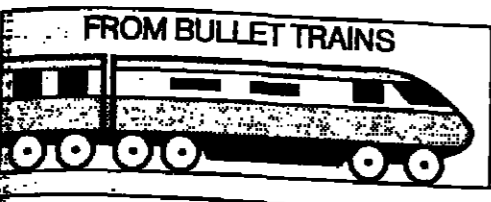
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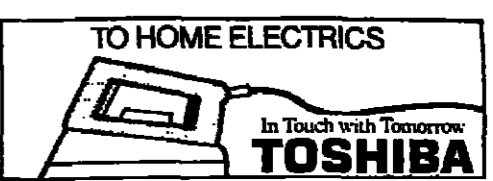
Large table listing various mutual funds and their performance metrics.

Advertisement for WestLB, featuring the text 'Fixed Income and Equities Trading - for dealing prices call:' and 'One of the leading Marketmakers'.



MONDAY, SEPTEMBER 12, 1988

Herald Tribune BUSINESS/FINANCE



WALL STREET WATCH

A Year After the Collapse: Methods for Cutting Risk

By CAROLE GOULD

NEW YORK — As the anniversary of Black Monday approaches on Oct. 19, investors are reviewing their stock portfolios, assessing the past year's performance and charting a course for the future. But given the uncertain economic outlook and the looming presidential election, many people want to minimize risk without abandoning the market. Here are some ways to do that:

Cost Averaging. This timing technique, carried out through brokers or mutual funds, is designed to smooth stock-market fluctuations over time, rather than having investors try to time market movements. Using this strategy, investors put equal amounts of money into instruments at regular intervals. Because the per-share prices rise and fall, investors buy more when the price is low and less when it is high.

Stop Orders. Stop orders — used to protect a profit or to limit a potential loss — are placed through brokers, at a price below the stock's current market value. When the stock drops to the specified price, the shares are sold at the best available price. In effect, someone is always watching market movements on your behalf. The rule of thumb is to place a stop order that limits the loss on an investment to 10 percent. For example, someone buying shares at \$50 each would place a stop order that would be activated when the price fell to \$45.

TO BE SURE, a stop order is not a guarantee that shares will be sold at the price specified. In an active market, securities may be sold below the specified price. In some cases, an exchange may halt trading on a stock, say, because of a pending announcement, and when it is reopened, its price is lower than the stop price. During instances of wildly fluctuating prices, an exchange may take the rare step of suspending stop orders. **Stop Limit Orders.** Like a stop order, a stop limit order instructs a broker to sell shares when they reach a specified price. But the shares can be sold only at that price, not the best one available. Investors thus run the risk that, if trading on a stock is halted and reopens at a price below the stop limit order, the shares will not be sold at all. **Covered Calls.** One way to protect against declining stock prices without actually selling the shares is to sell call options on them. This is a strategy for investors who believe that a stock has good long-term potential but expect the market to fall. With a covered call, you sell, in the open market, the right to buy 100 shares at a predetermined "strike" price for a specified period. You are paid a premium for that right, and you keep the premium whether the buyer exercises the call or not. For example, you buy stock selling for \$50 a share, and simultaneously sell a call, allowing someone to purchase the shares for \$50 within a specified time, usually three months. You receive a premium, determined by the market, say, of \$5 a share. Three months later, the price drops to \$46. But your \$5 premium more than offsets the \$4 price decline. If the stock falls sharply, the premium offsets the first \$5 of loss. The risk is that you forfeit opportunities for price appreciation above the strike price. If stock rises, the call will be exercised. **Put Options.** What happens if you want to keep the stock but want to protect yourself because you expect the market to drop? Another way to hedge a portfolio is to buy put options, which give you the right to sell stock at a fixed price before a specific expiration date. If the stock price falls, most likely you will sell the put, which is now worth more, thus offsetting the loss on the stock. In effect, a put is a form of insurance, and the premium you pay to buy it is "just like the premium you pay to insure your car," said Richard Donsky, executive director of options for Shearson Lehman Hutton. For example, assume someone sells shares for \$100 each. The investor pays a \$10 premium to buy a put, insuring that, no matter what happens in the market, the shares can be sold at \$100. If the price rises, the puts are worthless, but the investor has a profit on the stock.

Currency Rates

Table with columns for Currency, Bid, Ask, and other market data. Includes sub-sections for Cross Rates and Other Dollar Values.

Forward Rates table with columns for Currency, 30-day, 60-day, 90-day, and 180-day rates.

Last Week's Markets table with columns for Stock Indices and Money Rates, showing changes from the previous week.



A Ford Mustang convertible being assembled at the C&C plant in Brighton, Michigan: A trend that is re-creating a U.S. industry.

Engineering a Custom Car Comeback

By John Holusha

BRIGHTON, Michigan — A new Ford Mustang convertible rolls off the assembly line here every few minutes, ready to be shipped to a Ford dealer for sale to someone who thinks the sunshine and wind in their hair is worth an extra \$4,000. But this is not a factory of the Ford Motor Co. Along an adjacent line, cars and minivans produced by Chrysler Corp. are being modified for shipment to Europe. And in another shop, floor pans are being fabricated for the limited line of four-wheel-drive Pontiac 6000s. The factory is operated by C&C Inc., formerly known as Cars & Concepts. The Brighton-based company, and several others, though small by Detroit's standards, now occupy an important place in the Big Three automakers' approach to niche markets. By using outside companies to convert basic models into such eye-catching variations as convertibles, the larger companies can offer low-volume models without burdening their factories with additional complexity and cost. "When we decided to re-enter the convertible market, it just made sense to outsource it, due to the low volume," said David Krupp, a Ford spokesman. "It simplifies the manufacturing process to do it outside."

The other major company is ASC Inc., the former American Smurf Co. The companies make the convertibles sold by General Motors Corp. and Ford, as well as manufacturing other specialty vehicles. Neither company reports its financial results: ASC is a private company, while C&C is a subsidiary of Masco Industries, which is based in the Detroit suburb of Taylor. Both say their annual revenues are in the range of \$100 million to \$200 million, and most of their growth has been over the past eight years. The companies are well on their way to re-creating an industry that disappeared in the 1920s as the Big Three absorbed their suppliers' custom coachbuilding. Others are expected to enter the field shortly. Some models that survive to this day, like the Cadillac Fleetwood and the Chrysler LeBaron, are derived from once independent suppliers of car bodies. One of the best-known labels in the industry, the "Body by Fisher" designation that appears on most GM cars, comes from the former Fisher Body Co., which had established a reputation for outstanding quality in the formative years of the industry. Coachbuilders survived in Europe, though, and are an integral part of the automobile industry there. Companies such as Pininfarina and Bertone in Italy and Wilhelm Karmann GmbH in West Germany, design, engineer and manufacture specialty models for the major companies. The Volkswagen Rabbit convertible, which is produced by Wilhelm Karmann, is one example. And when GM's Cadillac division wanted some Continental charm for a high-priced two-seater, it turned to Pininfarina to help design and manufacture the body for its Allante model. The current trend toward model proliferation and the consequent declining sales volumes for each have created a need for an American coachbuilding industry. For the big automobile makers, "the trick is how to make money at lower volumes," said David Cole, the director of the Office for the Study of Automotive Transportation at the University of Michigan in Ann Arbor. "It's awfully tough at 5,000 or 10,000 a year, but the manufacturers know they need specialty products in their showrooms," he added. But as Gerald M. Jusco, the vice president for business development at ASC, noted, producing cars in small volume is not the forte of the automobile giants. "GM thinks in modules of 250,000 cars at a time," he said. "They need big plants and economies of scale to See AUTOS, Page 15"

Verity Says U.S. Firms Slow to Move in Japan

By David E. Sanger

TOKYO — On what is likely to be the Reagan administration's last major trade mission to Japan, Commerce Secretary C. William Verity Jr. appeared more critical of American corporate efforts to market in Asia than of the remaining Japanese barriers to doing business here. "We are still not oriented to a world market," Mr. Verity said of American companies during a breakfast with reporters Saturday. "If you are part of the world's largest free market, you feel that if you can make it in America, you have it made. That's not true anymore." Mr. Verity's comments appeared to reflect frustration among administration officials that many American companies, from construction firms to automobile manufacturers to makers of consumer goods, have yet to take advantage of the weak dollar or several of the agreements signed in recent months to liberalize Japan's markets. Mr. Verity seemed particularly concerned about the reluctance of construction companies to bid for work on the Kansai airport near Osaka, one of Japan's biggest public works projects. The American construction industry had complained it was systematically excluded from the project. After lengthy negotiations, with Japanese officials at first dismissing the possibility of American involvement in the project, an agreement was reached under which foreign companies could bid on \$17 billion of construction. So far, however, there have been few bids from Americans. Mr. Verity quoted a senior official of Japan's Transportation Ministry as saying, "You'd better move faster, because the Koreans are moving in," a reference to the large number of South Korean construction firms vying for the airport project. "We opened up the market for Koreans, which is what we do all the time," Mr. Verity said. Mr. Verity is accompanied on his trip by 25 industry executives, most representing consumer-goods companies, which are attempting to bring their products to the Japanese. The companies range from Knott's Berry Farm Foods, which is hoping to sell jams in Tokyo food stores, to Pacific Seacraft Corp., a maker of large yachts. In fact, many of the companies are makers of goods worth thousands or hundreds of thousands of dollars, saying that Tokyo is now the Mecca of high-ticket items. "The Japanese economy is booming," said Mr. Verity. "Everything about it is strong and healthy. The only paradox is that the Japanese consumer has not benefited from it. We are trying to convince them that they want a choice." Mr. Verity blamed much of the lack of a Japanese consumers movement on the country's complex distribution system, which drives up costs and is tailored to small stores instead of large retailers. "We hear case after case of Japanese tourists coming home from trips with Japanese-made cameras that sell for far less abroad," said Mr. Verity. "That's ridiculous. Something is wrong here."

Seoul Expects Trade Surplus To Rise Above \$11 Billion

Agence France-Press

SEOUL — South Korea's current-account surplus is expected to reach more than \$11 billion this year, about \$1.5 billion over what the government wanted, the Bank of Korea said Sunday. The central bank said that the surplus was \$6.07 billion in the first half of the year and forecast that it would grow by \$5 billion in the current six months. The government had tried to hold the surplus to \$9.5 billion.

Last year's surplus was \$9.85 billion. The International Monetary Fund had strongly urged Seoul to bring the figure down to about \$5 billion this year. According to the Bank of Korea, the nation's total merchandise exports for 1988 will reach \$37 billion, up 7.4 percent over last year.

Advertisement for Telefonica de España, S.A. featuring a logo of a telephone handset and text: 'Telefónica de España, S.A. U.S. \$200,000,000 4 per cent. Convertible Bonds 2003'. Lists various financial institutions as underwriters.

Maxwell Ready To Offer More For Macmillan

By Geraldine Fabrikant

NEW YORK — Robert Maxwell, the British publishing entrepreneur, has said that he is prepared to raise his bid for Macmillan Inc. to \$84 a share under certain conditions, it was disclosed Sunday. At that level, the bid would value the publishing group at \$2.2 billion. Earlier, Mr. Maxwell offered \$80 a share for Macmillan, which it rejected as inadequate. Macmillan has also rejected bids from Robert M. Bass Group Inc. Mr. Maxwell said his offer would be increased only if Macmillan made it clear which of its senior management would stay on if the bid went through and which would leave the company. The offer came in a letter to Macmillan, dated Friday, after talks between Macmillan and Mr. Maxwell on Thursday. Mr. Maxwell said in his letter that Macmillan had informed him that it was working on a leveraged buyout of the company and that if he, or anyone else tried to stop it, management would leave. The letter said that the offer, by Maxwell Communication Corp., would be withdrawn if Macmillan received a higher bid. A bidding war for Macmillan started when the Bass Group offered \$64 a share in cash for the company, which responded with a restructuring offer of its own valued at \$64.15 a share. The Bass Group sought a preliminary injunction against that restructuring and won. Subsequently, Bass raised its bid, first to \$73 a share and again to \$75 a share, only to be topped by Mr. Maxwell. The letter revealed that, though Mr. Maxwell had indicated an interest in buying the parts of the company that comprise its fast-growing information businesses for \$1.4 billion as an alternative to a full takeover, Macmillan had told him it was prepared to sell only about \$400 million to \$500 million in assets to assist it in financing a management leveraged buyout. Earlier, Mr. Maxwell had indicated he would pay \$1.1 billion for the information businesses. Macmillan has held talks with Koblberg, Kravis, Roberts & Co., the investment firm, about structuring a leveraged buyout. Executives who have followed the deal believe that by raising the bid, Mr. Maxwell makes it increasingly difficult to structure a competing buyout bid. No announcement came from the Macmillan board following a meeting Saturday, leading some to conclude that no deal had been arranged. Mr. Maxwell owns no stock in Macmillan. The fact that he does not stand to benefit from pushing up the price of the stock indicated to observers that he is very serious about gaining control of the company.

GATT Reports Trend Toward More Subsidies

Agence France-Press GENEVA — World trade in the October-March period was marked by a trend toward more subsidies to encourage farm exports, the General Agreement on Tariffs and Trade said in a report to be released Monday. The trend was especially pronounced in the European Community and the United States, the trade body said, while a drop in world prices, exacerbated by the export subsidies race, forced certain other governments to boost payments to producers. GATT noted that market access problems faced in world farm trade were reflected in the number of disputes that came before the agency during the October-March period. The report also noted that "voluntary limitations" restricting trade in steel, motor vehicles, shoes and textiles were maintained during the period.

NASDAQ National Market

OTC Consolidated trading for week ended Friday, Sep. 9

Main table containing NASDAQ National Market data, listing various stocks with columns for 'Sells in 100s', 'High', 'Low', 'Close', and 'Net Chg'. Includes sub-sections A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z.

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ITH EXTRAS section with graphics and text: 'Full weekend sports results in Monday's ITH', 'Friday's market closings in Saturday's ITH'.

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Continuation of the NASDAQ National Market data table from the top section, listing various stocks and their market performance.

DOLLAR and other vertical text on the right margin.

New International Bond Issues

Compiled by Laurence Desvillettes

Table with columns: Issuer, Amount (millions), Mat., Coup. %, Price, Price end week, Terms. Includes sections for Floating Rate Notes and Fixed-Coupon.

Relationships Can Still Matter More Than Profits

By Carl Gewirtz
International Herald Tribune
PARIS — Despite all the talk that the new international standards on capital adequacy rules will sharpen banks' need for profits, there is still no sign that bankers are prepared to allow low pricing to stand in the way of establishing or maintaining credit relations with clients deemed important.

of a globally diversified group of banks, so that the transaction will be regarded as a benchmark financing.
Malaysia is in the enviable position of not having tapped the market during the past two years, during which time it prepaid some \$2 billion of debt outstanding. As a result, banks are hungry for Malaysian government business.

Citicorp Unit Gets Card Arm Of Failed Bank

United Press International
DALLAS — Citicorp (Delaware), a subsidiary of Citicorp, has won the bid for the credit card subsidiary of the former First Republic Bank Corp., beating NCNB Corp. of Charlotte, North Carolina, which acquired the failed bank in July.

Bearish Concerns Fail to Stop Gains AUTOS: Comeback of an Industry

By Carl Gewirtz
International Herald Tribune
NEW YORK — Prices of U.S. Treasury bonds rose last week, despite a general sentiment among participants that the market may have gone too high during a rally the previous week.

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DOLLAR: Analysts Agree on Continuing Decline

(Continued from page 1)
...by be calmly received by both the bond and foreign-exchange markets," he said.
Simon Crane, whose Crane Investment Analysis Ltd. in London specializes in interpreting chart movements for financial institutions, called the dollar's decline last week "a natural correction," not the result of the employment statistics.

U.S. Consumer Rates

Table with columns: Rate, % (Sept. 9). Includes Treasury Bonds, Money Market Funds, Bank Money Market Accounts, Bank Rate Monthly Index, Home Mortgage, FHLB average.

U.S. CREDIT MARKETS

On a more modest rise of 0.3 percent in the producer price figure excluding food and energy.
The 2.2 percent rise in energy prices was discounted by many economists, who noted that oil prices had weakened recently and fell further Friday afternoon.

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Even banks call upon our expertise.

BHF-BANK advertisement featuring a photograph of a modern building and text describing global services and expertise.

Hard-Currency Savings Rise in China

Agency France-Press
BEIJING — Hard-currency deposits at the Bank of China surged in June and July as the national foreign-exchange bank boosted interest rates, the official press reported Sunday.

Treasury Bonds

Table with columns: Maturity, Bid, Ask, Yield, % (Sept. 9). Includes Treasury Bonds, Treasury Notes, Treasury Bills.

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NASDAQ National Market OTC Consolidated trading for week ended Friday. Table with columns for stock symbols, bid, ask, and volume.

Wall Street Review NYSE Most Actives, AMEX Most Actives, NYSE Sales, AMEX Sales, NYSE Diaries, AMEX Diaries. Summary of market activity.

Market data table with columns for stock symbols, bid, ask, and volume. Includes various market indices and individual stock prices.

Market data table with columns for stock symbols, bid, ask, and volume. Includes various market indices and individual stock prices.

Market data table with columns for stock symbols, bid, ask, and volume. Includes various market indices and individual stock prices.

INTERNATIONAL POSITIONS Table listing job titles, salaries, and employers. Includes roles like Financial Controller, Publishing Executive, etc.

Market data table with columns for stock symbols, bid, ask, and volume. Includes various market indices and individual stock prices.

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OIL & MONEY THE SEARCH FOR STABILITY THE NINTH ANNUAL INTERNATIONAL HERALD TRIBUNE / OIL DAILY CONFERENCE, LONDON, OCTOBER 13-14, 1988. Includes keynotes and strategies for the majors.

Market data table with columns for stock symbols, bid, ask, and volume. Includes various market indices and individual stock prices.

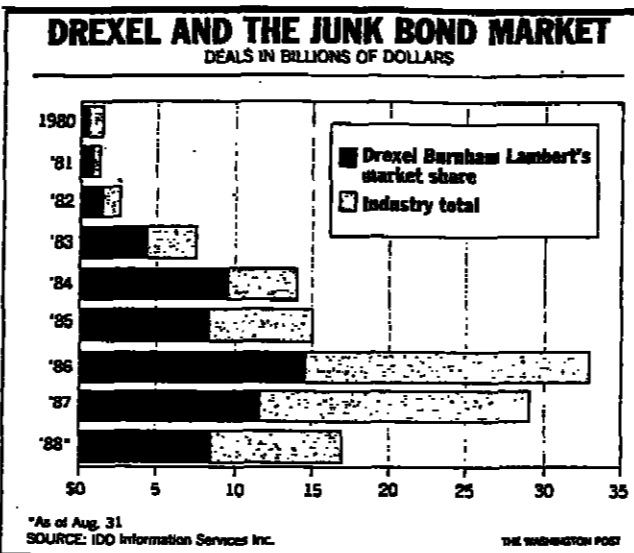
Registration information for the Oil & Money conference. Includes contact details for the International Herald Tribune, conference location, and registration forms.

Chicago Exchange Options Table listing various options contracts with columns for call and put prices, and other market data.

Drexel Launches a Wide-Ranging Defense to SEC Charges

By Kurt Eichenwald

New York Times Service
NEW YORK — When officials from the Securities and Exchange Commission arrived at the federal courthouse in Manhattan to file their civil complaint against Drexel Burnham Lambert Inc. last week, they got a sample of the tenacious battle they must face.
The SEC had not told anyone the filing was going to be made Wednesday. But when the officials entered the clerk's office, they were greeted by defense lawyers from three influential law firms representing Drexel and two of its employees.
One lawyer had been periodically stationed at the office over the past few months, while another had been checking in with SEC officials in Washington for several days.
When told by a secretary at the SEC that the government officials were making the lawyers scramble to beat them to the clerk's office.
Moments after the SEC officials arrived, a defense lawyer made the first — albeit unofficial — objection to the government's case, complaining that part of the document may have been improperly filed and should not be accepted by the court clerk. Scuffling ensued, and Thomas C. Newkirk, a top official with the SEC's enforcement division, had to intervene to have the document accepted.
As dawn broke on the first day after the filing, there was little sleep at the headquarters of Drexel in New York or its high-stakes junk bond department in Beverly Hills. The \$150 billion junk bond market, which Drexel is widely credited with having pioneered, saw none of the drop that some had expected. Traders said that press reports — and efforts by Drexel — had gotten the market to absorb the news before it was announced.
The scene in the clerk's office is the first skirmish in what is certain to become an all-out war. After almost two years of rumors, leaks and innuendo, Drexel, along with its lawyers and other advisers, has completed an intense preparation to fight back against the complaint and appears ready to do battle in and outside the courts.
The battle is being waged on many fronts. The firm is keeping an eye on its varied constituencies — from clients to employees, Congress and the press — to make sure that it is able to get across its message that neither Drexel nor anyone within the firm violated any laws, and that high-yield, or junk, bonds are continuing to thrive.
To push the message, Drexel has organized a coterie of image consultants, media advisers, pollsters and public relations experts to help set strategies for the firm's response to the investigation.
Indeed, as soon as the complaint was filed, Drexel went into action.



More than 15,000 letters were sent by the company to its employees and to its clients explaining the situation. Many clients who previously had been selected were called directly by top executives. T-shirts with booster slogans for Drexel were distributed to the employees.
Eight securities deals worth a total of \$1.7 billion will be executed in the next few days to help company morale. And more activity was taking place behind the scenes.
'They have handled this crisis management about as well as you can handle something like this,' said Henry Gluck, chairman of Caesars World Inc. and a satisfied Drexel client.
But Drexel is facing perhaps the most significant crisis of any Wall Street firm in history.
In its complaint, the SEC accused the firm and four of its employees, including Michael Milken, head of its junk bond department, of a plethora of securities law violations said to amount to the largest fraud case in history.
The charges, which range from stock manipulation to defrauding its own customers, stem mostly from information provided by Ivan F. Boesky, the former arbitrator who, in 1986, agreed to pay \$100 million and plead guilty to a criminal charge to settle federal charges related to insider trading.
The 184-page civil complaint

As dawn broke on the day after the filing, there was little change at Drexel's headquarters in New York.

against Drexel had long been anticipated, but the extent and depth of the charges made against the firm were more serious than many in the securities industry had expected.
While it is unclear what legal strategy Drexel will take in court, the firm long ago assembled a team of lawyers from two top law firms to fight the complaint, as well as hiring a financial detective, Jules B. Kroll, to uncover information about Mr. Boesky that might prove damaging to him in court.
While little has been seen of the legal preparations, the first few days since the indictment have shown that the firm has clearly put its crisis control plan into action.
It was a plan that was nearly two years in the making. During that time, top executives from the firm met at least twice a week to discuss the investigation, set strategies to respond to developments and pre-

pare for the moment when the case was finally filed.
Drexel is reluctant to discuss its crisis plans, fearing how the government might view them. Indeed, when asked a few weeks before the filing just about aspects of the firm's public relations campaign, a spokesman for Drexel at first denied one even existed.
But the effort — which does include a public relations drive — has won the admiration of Wall Street professionals, many of whom have seen more than one investment bank founder on the shores of adverse publicity.

The charges against Drexel stem mostly from information provided by Ivan F. Boesky, the former arbitrator.

broke itself into basically two different entities: One whose employees worked with the securities industry, and a much smaller one whose employees spent most or all of their time dealing with the fraud investigation.
In the early stages, four senior executives were assigned to work on the investigation full time. That number has expanded slightly, with about 20 people putting in significant amounts of time.
As the firm continued to coordinate its efforts in late 1986 and early 1987, it began to turn to outside help.
To help it through the bad publicity, Drexel has hired a collection of outside advisers that would put any political campaign to shame. Indeed, Drexel hired some people best known for their work in the political arena.

Amsterdam
Prices firmed last week. Sentiment was helped by an easing of fears that interest rates would rise further as signs emerged of a slight cooling in U.S. economic growth.
The ANP-CBS general index finished at 266.8 on Friday, 5.7 points above the previous Friday's close. Turnover surged to 7,023 billion guilders from the previous week's 4,738 billion guilders.
The market was also encouraged by half-yearly reports from local companies. Nonetheless, brokers said, investors remain cautious in the face of economic uncertainty.

Frankfurt
Stocks scored some strong gains last week, after a long pause. The Commerzbank index closed Friday at 1,491, to show an increase of 38 points on the previous Friday.
Analysts said recent indicators seem to show that the risks of overheating of the U.S. economy are smaller than had been feared, which in turn reduced concern about inflation and rising interest rates in West Germany.

Milan
Stock prices made a slight gain on the week, but volume dipped again to hit the year's lowest level. The Comit Index finished Friday at 517.45, compared with 513.48 the previous Friday. Volume averaged 70 billion lire a day, down from 80 billion lire the previous week, with an average of 20 million shares changing hands a day, against 22 million.
Ferruzzi Finanziaria did well, rising a total of 3.74 percent for the five sessions, after a disappointing start to its market career on Sept. 1 and 2. It was announced Thursday that Generali, the insurance group, would soon acquire part of Ferruzzi Finanziaria's capital.

Hong Kong
The market finished the week firmer, despite mixed trading. The Hang Seng Index rose 46.67 points to close at 2,496.56 on Friday, while the broader-based Hong Kong Index climbed 29.97 points to end at 1,650.50.
Average daily turnover for the week was \$22.2 million Hong Kong dollars, up from 456 million dollars the week before.
On Monday, the Hang Seng surged 58.30 points and the Hong Kong Index advanced 38.42, reflecting Wall Street's advance the previous Friday. There was a correction Tuesday, another strong rise Wednesday, and declines Thursday and Friday.

London
The market's direction was erratic in another week of dull trading. London Stock Exchange indices had an erratic week in what was, once again, a dull market.
The Financial Times 30-share in-

dustrial index ended 7.4 points lower on the week at 1,398.5, while the FT 100-share index finished the week at 1,738.4, 8.5 points down from the previous Friday's close.
Early in the week, the market was supported by a strong rise in government bonds followed by signs of sterling strength. But low investment by institutional investors, which has been concerning the City for a number of months, coupled with the upward revision of the most recent retail-sales figures, caused a reversal midweek.

Singapore
The market began the week in a bullish mood of general buying and bargain-hunting, but ended on an easier note. Dealers said sentiment was depressed by lackluster trading in regional stock markets.
The Straits Times industrial index closed the week 14.36 points higher at 1,063.53, while the Stock Exchange of Singapore all-share index picked up 1.76 points to 294.34.

Tokyo
Prices on the Tokyo Stock Exchange advanced moderately last week. Dealers said that the yen's advance against the dollar helped to dispel fears of inflation and higher interest rates.
The Nikkei stock average closed at 27,647.10 yen Friday, up 138.85 yen on the week.
The market started the week on a bearish note amid uncertainty over exchange rates. Investors were also cautious in the absence of a lead from Wall Street, closed Monday for a holiday.
But Wednesday and Thursday saw sharp rises in stocks as the yen firmed against the dollar and oil prices declined. Buying interest centered on domestic demand-related issues such as electric, railroads, real estate and pulp. The index declined Friday as investors took profits.

Paris
The Bourse saw increased investment interest with the end of the summer vacation season, and prices rose slightly, but the market's mood was generally somber throughout the week, dealers said.
The CAC index rose to 351.7 at the end of the week, against 344.8 the previous Friday.
The market was uncertain about the course of interest rates, both worldwide and in France, and some downward pressure on the French franc has given rise to rumors of a realignment of parities within the European Monetary System.

Zurich
Stocks moved narrowly and volume was very low, dealers said, adding that they feared this situation would continue for some time.
The Credit Suisse index lost 1 point on the week to finish at 462.7, while the Swiss Bank Corp. indicator ended at 522.4, down 0.3 of a point.
Banks were off slightly. UBS lost 65 Swiss francs to 3,100. Credit Suisse fell 45 to 2,465 and Banque Populaire Suisse lost 15 to 1,654. Industrials and food stocks also declined.

American Exchange Options table with columns for Option & price, Calls, and Puts. Includes sub-tables for various stock options.

Advertisement for Robeco Geneva Account. Includes text: 'If you'd kept US\$ 5,000 in a 6-month dollar deposit account for the 5 years ending 31st August 1988, it would have grown by 52% to US\$ 7,600.' Includes an illustration of a man with a large dollar sign on his head.

INTERNATIONAL CLASSIFIED table listing various services and agencies across different cities like London, Zurich, and Geneva.

Anita Roddick: More Than Skin Deep

Something Rotten in Fishy Sayings

International Herald Tribune LONDON — True to the cosmetics industry's unique gift for turning fool's gold into the real thing, Britain's Body Shop chain now has more than 300 outlets in 33 countries...



British cosmetics entrepreneur Anita Roddick.

olider women. On the other hand, she says she cannot take moisture creams too seriously. "I can take them seriously in that they are effective for making the skin more supple and pleasant to touch..."

lines make more sense than pulling ideas out of the air or saying what you do want next? Roddick has triumphed as a maverick while earning the admiration of the financial establishment...

By William Safire

WASHINGTON — "There's an old Greek saying," said Michael Dukakis, responding to a question about whether President Reagan and Vice President Bush could be held personally accountable for their administration's ethical lapses...

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